
the **James Irvine** foundation
Expanding Opportunity for the People of California

2010 ANNUAL PERFORMANCE REPORT

JUNE 2011



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LETTER FROM THE PRESIDENT

Dear Friends,

With this 2010 report on Irvine's activities, we inaugurate a new approach to our traditional annual report. Several years ago, we migrated our annual report from a static print version, which was often less relevant by the time it was printed and mailed, to an online version, which both saved financial resources and allowed for rapid dissemination. Now, we are taking our annual report a step further by providing more detail within it about the Foundation's progress across various dimensions of our work.

Since 2006, we have produced a separate Annual Performance Report for Irvine's board as a way to report to them on our progress toward our long-term goals. In the spirit of transparency, we have posted that report on our website each year since its inception, but it was aimed at a narrower audience in the field of philanthropy, while the annual report served as one of our primary vehicles to communicate to the Foundation's broader group of stakeholders.

In terms of their content, the two approaches were actually quite complementary: While our annual report provided more context for a broader audience and focused on the more transactional aspects of our grantmaking, such as an annual listing of hundreds of grants, the Annual Performance Report offered a deeper analysis about the impact we seek to have and was based on considerable analysis and reflection.

Accordingly, the report that follows brings these two approaches together into a single online publication. We report here on Irvine's progress in a variety of areas that we have determined are important to understanding our impact. While we focus on the impact we're having in our core grantmaking programs (see Program Impact section), the report also includes areas beyond our programs that are related to our effectiveness as an institution (see sections on Exercising Leadership, Constituent Feedback and Finance and Administration).

The remainder of my annual letter below highlights some of the key activities in each of our core grantmaking programs, describes some governance changes in 2010, and concludes with some reflections about other important ways we might understand philanthropy's contributions.

ARTS Irvine remains the largest private arts funder dedicated to California, with more than 300 grants in our active portfolio and an annual grants budget close to \$20 million. This past year, we awarded a new round of grants through our Arts Regional Initiative to leading arts institutions in the San Joaquin Valley. And we learned from the first cohort that the initiative's focus on planning and financial sustainability helped organizations survive an economic downturn that hit the region particularly hard.

Last spring, we were also honored to host Rocco Landesman, chairman of the National Endowment for the Arts, on his tour of Los Angeles and San Francisco. The visit provided the NEA chairman with a valuable opportunity to learn more about the rich and diverse arts community and to build relationships that will inform the NEA's work in California.

CALIFORNIA DEMOCRACY In our California Democracy program, California Forward and other Irvine grantees helped to advance key governance and fiscal reforms. While comprehensive reform remains unfinished, 2010 saw a number of promising developments, and these organizations are building momentum toward the kind of long-term, structural change needed to fix California's chronic governance and fiscal policy challenges.

2010 also marked the start of a new process for redrawing California's legislative voting districts and the creation of a new Citizens' Redistricting Commission to oversee that process. Thanks in part to the work of our grantees, the selection of this commission involved broad public participation and a diverse pool of applicants – both of which were critical to establishing its credibility.

YOUTH In our Youth program, we expanded our efforts to establish Linked Learning as a leading approach for education reform. School districts across the state continued the complex work of building out Linked Learning programs, despite the tremendous fiscal pressures they face. And as a result, thousands of California high school students are now experiencing the power of blending rigor and relevance in their education.

The Linked Learning Alliance, a broad coalition of champions and advocates for Linked Learning, continued to grow and engage with policymakers. And we were excited and gratified that the California Department of Education identified Linked Learning as a key strategy for transforming high school education in the state.

BOARD UPDATE I'd like to take note of some important transitions that occurred on Irvine's board in 2010.

Peter Taylor, executive vice president and chief financial officer of the University of California system, was appointed chairman by his board colleagues in January 2010. He succeeded Gary Pruitt, Chairman and CEO of The McClatchy Company, who retired from the board following eleven years of distinguished service, including four as chairman.

Peter has served as a director since 2000 and brings a deep understanding of California to his leadership at Irvine, by virtue of both his professional and volunteer leadership roles with many organizations. I am also pleased to report that, in November 2010, we announced the election of Samuel Hoi to the Irvine board of directors. Sammy serves as President of the Otis College of Art and Design in Los Angeles and has already added greatly to our deliberations.

EFFECTIVE PHILANTHROPY This report relies significantly upon data gathered in a variety of areas that we consider important to understanding our progress. While such attention to measurement is vital to understanding our progress, I conclude my annual letter by suggesting that there exist other attributes, often not easy to measure, that may advance our ability to make a positive contribution as a philanthropic institution. In our work at the Irvine Foundation, we also consider how well we are doing on these three important attributes of effective philanthropy:

- **Listening:** Because of the resources at our disposal, we have access to people and information that others might not. This access provides us with a unique platform for learning, but it also requires us to be active and authentic listeners. The power dynamic inherent to philanthropy makes it critical that we resist the temptation to talk more than listen, precisely because people will always listen politely to anything we have to say, regardless of its utility.
- **Synthesizing:** Because of our access to information, one of the most powerful roles philanthropy can play is to synthesize the large volume of information at our disposal. We can make a valuable contribution to our field if we reflect back what we are hearing, frame the emerging themes and issues, and offer hypotheses about the opportunities before us.
- **Sharing:** Every foundation has accumulated a great deal of knowledge about what works and what doesn't. Accordingly we have an obligation to share this learning more broadly. Doing so requires us to be as comfortable in sharing our mistakes and shortcomings as we may be in pointing to our successes.

It is in this spirit that we offer this 2010 Annual Performance Report. While it serves as an important tool to help us understand how we can improve our work, its utility is amplified to the extent that we can engage in a dialogue with our stakeholders about how to do better.

In the end, our ability to achieve Irvine's mission of expanding opportunity for the people of California depends upon our success in engaging others as partners, allies and even constructive critics. This report remains a work in progress, and we greatly appreciate your comments and suggestions about how we might improve it and our work on behalf of the people of California.

Sincerely,



James E. Canales
President and CEO

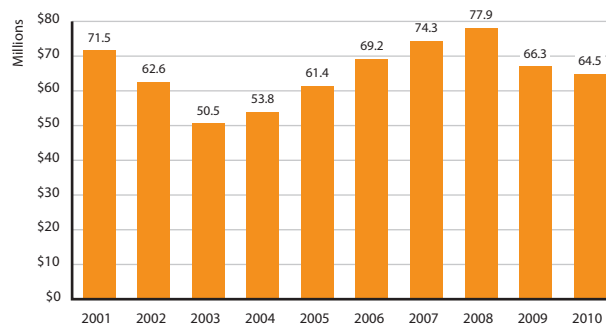
2010 GRANTMAKING

the James Irvine foundation
Expanding Opportunity for the People of California

Our report begins with an overall review of Irvine’s grantmaking in 2010, based on several ways we track and analyze our grantmaking data. We provide a look at our total grantmaking over the past decade and across all our program areas in 2010. (For more analysis of individual programs, please see the relevant sections under Program Impact.) We also report in this section on the geographic distribution of Irvine’s grants and the populations served in terms of ethnicity and economic status.

The chart below shows the trend of our total grantmaking over the past 10 years, which is determined by a spending formula applied to the Foundation’s assets. The graph illustrates the decline in grantmaking in the early 2000s due to market conditions, the steady growth in assets between 2003 and 2007, and the reductions we made in 2009 and 2010 in response to the recent economic downturn. We project modest increases in assets in 2011 and have budgeted \$65 million in grantmaking for 2011.

TOTAL GRANTMAKING, 2001–2010



The next table shows the distribution of grant dollars in each of the Foundation’s program areas in 2010. Although total grantmaking was down slightly from the previous year, we were able to maintain a consistent level of grantmaking for our core programs of Arts, California Democracy and Youth. Combined, the core programs accounted for 86 percent of total grantmaking.

TOTAL GRANTMAKING BY PROGRAM, 2010

Program Area	2010 Grant Dollars	Percentage
Arts	\$18,041,413	28%
California Democracy	\$14,980,158	23%
Youth	\$22,941,263	35%
Special Initiatives	\$5,173,067	8%
Special Opportunities	\$2,270,000	4%
Other*	\$1,102,548	2%
Total Grantmaking	\$64,508,449	100%

*Includes memberships, sponsorships and discretionary grants.

REGIONAL DISTRIBUTION OF GRANTMAKING

One of the Foundation’s core grantmaking principles is a focus on place. While we support organizations throughout California, we are particularly aware of the unique needs of different regions. Therefore we make a point of tracking the amount of grant resources directed to different regions of the state. Program staff calculates the regional distribution of funds for each grant based on planned activities or audiences.

The chart below shows that we divide our resources equally between statewide efforts and work targeted at specific regions in the state.

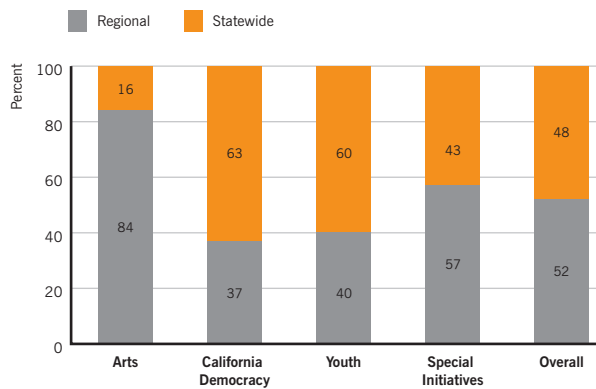
REGIONAL VS. STATEWIDE GRANTMAKING, 2006–2010



Note: Excludes memberships, sponsorships and discretionary grants

The next chart shows regional and statewide grantmaking by program. We find that grants in the Arts and Special Initiatives areas are more likely to focus on particular regions of California compared to Youth and California Democracy, which is appropriate given the statewide focus of their strategies for Linked Learning and governance reform, respectively. In 2010 a major renewal grant to California Forward largely accounts for the increase in statewide grants for the California Democracy program.

REGIONAL VS. STATEWIDE GRANTMAKING BY PROGRAM, 2010



The table below provides detail about our regional grantmaking in 2010 compared with our active portfolio, which includes ongoing grants from previous years. The active portfolio is a more complete representation of the work of our program teams as they are engaged in ongoing reporting and monitoring with those grantees.

This analysis also shows how our attention to our priority regions (San Joaquin Valley and Inland Empire) and other areas outside of the metropolitan centers of California are aligned with the population of the state. Key elements of our regionally focused grantmaking include grants to increase civic engagement in inland regions, to strengthen arts organizations in the Central Valley and to build Science, Technology, Engineering and Mathematics opportunities for students in the Inland Empire.

The last column of the table provides the regional distribution of grants to California by all private foundations in the United States in 2009, the most recent year for which this data is available. This was an important piece of information in our last strategic planning effort that demonstrated the overwhelming philanthropic resources directed at the Bay Area. It illustrates the challenge of finding philanthropic partners in regions like the San Joaquin Valley.

GRANTMAKING BY POPULATION SERVED

As an institution dedicated to expanding opportunity for the people of California, the Foundation maintains a deep commitment to working in partnership with organizations that serve low-income communities and communities of color. Accordingly, we monitor both economic status and race/ethnicity of the population that will be served by our grants. This data collection effort is only a few years old and we have not set specific targets for these measures.

A grant is coded as serving low-income Californians or a specific racial/ethnic group only if the grant activities described in the grant proposal explicitly or exclusively target that population, hence those categories are necessarily limiting. Grants that are not coded as serving specific populations are also likely to benefit low-income and diverse Californians, but the goals and strategies may not specifically address diversity factors or population-specific needs.

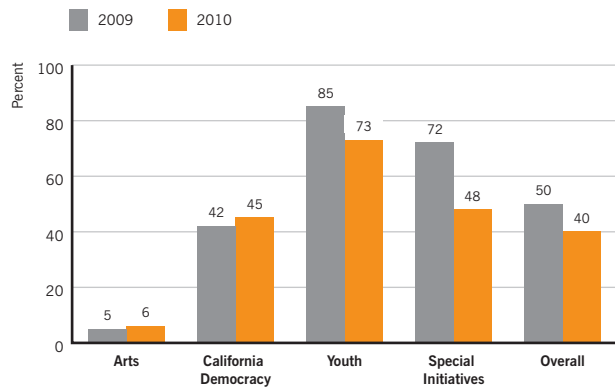
GRANTMAKING BY REGION OF CALIFORNIA

Region	2010 Grantmaking		Active Portfolio (as of 12/31/2010)		REFERENCE POINTS	
					Population	Total Fdn Giving 2009
North Coast and North State	\$149,279	0%	\$1,588,029	1%	1%	1%
Sierra	\$22,136	0%	\$267,969	0%	1%	0%
Bay Area	\$6,995,301	21%	\$24,544,632	20%	19%	53%
Central Coast	\$1,165,511	4%	\$7,596,336	6%	4%	5%
North Valley	\$26,851	0%	\$360,516	0%	2%	0%
Sacramento Metro	\$2,036,838	6%	\$7,329,256	6%	5%	4%
San Joaquin Valley	\$6,556,204	20%	\$21,852,178	18%	10%	1%
Los Angeles Metro	\$12,464,083	38%	\$41,108,191	34%	38%	29%
Inland Empire	\$1,984,823	6%	\$8,818,856	7%	11%	2%
San Diego and Imperial	\$1,445,429	4%	\$8,532,179	7%	9%	5%
Total Regional Grants	\$32,846,455	100%	\$121,998,142	100%	100%	100%

Note: Excludes memberships, sponsorships and discretionary grants

To provide context for this data, the statewide poverty rate is 13 percent, and 57 percent of California's residents are people of color.

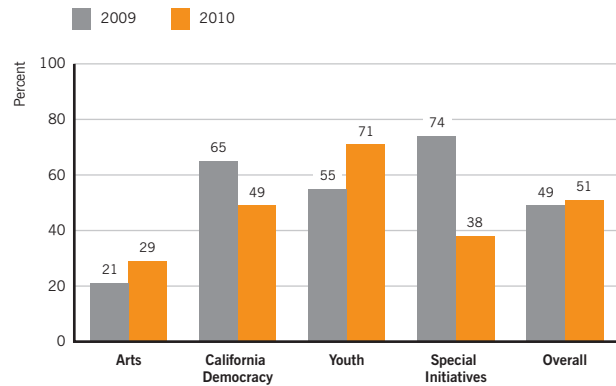
GRANTMAKING FOCUSED EXCLUSIVELY ON LOW-INCOME COMMUNITIES, 2009–2010



Note: Excludes special opportunity and discretionary grants, memberships, sponsorships and foundation-administered projects

The chart above shows that 40 percent of our grantmaking in 2010 focused exclusively on low-income populations in California. This number is down from 50 percent in 2009 but up significantly from the 30 percent figure we saw in 2008. We have noticed significant variation year-to-year on this figure. The most significant difference is a decline in the Special Initiatives grantmaking pool related to the fact that grants for our Community Leadership Project, which focuses exclusively on low-income communities and communities of color, took place in 2009 even though the activity generated from that multiyear initiative continued in 2010 and beyond.

GRANTMAKING FOCUSED EXCLUSIVELY ON COMMUNITIES OF COLOR, 2009–2010



Note: Excludes special opportunity and discretionary grants, memberships, sponsorships and foundation-administered projects

Grantmaking that benefits communities of color remained essentially flat from 2009 to 2010. Significant variance was observed in California Democracy, in part due to the substantial \$6 million grant to renew our support for California Forward. This organization, while ultimately working to benefit all Californians, is not coded within our dataset as focused specifically on communities of color. Within Special Initiatives, the variance is again attributable to the timing of grants within the Community Leadership Project.

PROGRAM IMPACT

ARTS

the James Irvine foundation
Expanding Opportunity for the People of California

PROGRAM DESCRIPTION

The goal of the Arts program is to promote a vibrant and inclusive artistic and cultural environment in California.

As one of the state’s largest private funders of the arts, Irvine has adopted a broad approach to supporting the sector. We promote the creation of new art, while also trying to increase access and engagement with the arts among diverse communities. We also seek to strengthen arts organizations, which play the leading role in creating, preserving and presenting cultural programs for the public.

We make grants in the following priority areas:

- **Artistic Creativity**—We support the creation of new work by California artists through grants to arts organizations and intermediary partners for new work development, professional development for individual artists, commissioning and fellowships.
 - **Arts Leadership**—We seek to foster an environment in which arts and culture flourish in California through leading arts organizations.
 - **Arts Innovation Fund**—We support the state’s premier cultural institutions as they advance their artistic vision and deliver innovative, aspirational programming.
 - **Arts Regional Initiative**—We support leading arts organizations in select regions of the state as they seek to increase cultural participation and improve their financial sustainability, management and governance.
 - **Cultural Participation**—We support the active engagement of Californians from all socioeconomic and ethnic backgrounds with quality art from a variety of sources and cultures. We aim to broaden, deepen and diversify participation in arts and culture in California.
- In addition, we have the following special projects in the Arts program:
- **California Cultural Data Project**—This is a statewide collaboration that collects comprehensive information about the cultural sector in California.
 - **Creative Connections Fund**—This fund provides open, competitive funding for small and midsize arts organizations. We offer grants up to \$50,000 over two years for projects in the areas of Artistic Creativity or Cultural Participation.
 - **Communities Advancing the Arts**—This initiative builds new, sustainable funding streams for the arts in California through selected community foundations.

2010 GRANTMAKING

In 2010, the Arts team began a gradual shift towards focusing more on participation and engagement, as illustrated by the large proportion of invited grants that were made under the Cultural Participation priority. (See table below.) We also maintained our commitment to leadership initiatives in the Arts program, which accounted for 50 percent of 2010 grant dollars in the Arts. The majority of our grants are invited, so the open application process of the Creative Connections Fund (CCF) provided an important mechanism for us to engage with small and midsize nonprofit arts organizations that are particularly important to nonmetropolitan regions of California. CCF also provides an opportunity to identify new partners for invitation to the core portfolio.

ARTS GRANTMAKING BY PRIORITY AND INITIATIVE, 2010

Priority	Number of Grants	Amount (Millions)	
Arts Leadership			
Arts Regional Initiative	16	\$4.6	26%
Arts Innovation Fund	7	\$4.5	25%
Cultural Participation			
Artistic Creativity	2	\$0.7	4%
Creative Connections Fund			
Cultural Participation	33	\$1.4	8%
Artistic Creativity	19	\$0.6	3%
Special Projects	7	\$0.4	2%
Total	110	\$18.0	100%

OUTCOMES

The Arts team focused on three strands of work in 2010: refining the Arts program strategy to focus more concretely on engaging Californians in the arts; engaging policymakers at the state and national level; and continuing existing keystone initiatives.

REFINING PROGRAM STRATEGY

A primary focus for the Arts team in 2010 has been considering how to refine the program strategy to address changes in California and our broader society that are creating new challenges and opportunities for the nonprofit arts field. Their review of the field highlighted that the maturing nonprofit arts sector has tended to prioritize achieving artistic vision and professional presentation over other goals. They also considered the arts sector's need to readily adapt to enormous shifts in California, particularly demographic changes that profoundly affect demand for arts services and products and technology-based changes that raise participants' expectations of arts engagement towards co-creation and ease of access.

GRANTMAKING

The Arts team continued to make grants aligned with the Artistic Creativity and Cultural Participation priorities. The Arts program makes more than 100 grants annually, twice as many as our other programs, so keeping up that pace is a notable achievement. A large portion of those grants went to small and mid-sized organizations through the Creative Connections Fund, our open application fund. Those grants complemented the support we provide to larger organizations through an invitational process.

ARTS INNOVATION FUND

We continued to evolve and learn from five new projects funded through the Arts Innovation Fund (AIF) that model innovative new practices and organizational shifts. Grants to the Los Angeles Music Center and the Fine Arts Museums of San Francisco will continue the development and institutionalization of successful innovations funded through AIF in 2007. Both projects are popular with the public and the institutions are developing additional revenue sources for their continuation beyond the end of AIF. Non-Irvine funding sources for AIF projects will be an issue that the Arts team will further explore in funding the final round of the initiative this year.

ARTS REGIONAL INITIATIVE

Arts Regional Initiative (ARI) grants in 2010 focused on 12 organizations in the San Joaquin Valley. Early engagement with the evaluator during proposal development enabled the grantees to improve the objectives and metrics they plan to use in this second phase of work to increase cultural participation and financial stability. The completion of the first-phase grants found the San Joaquin Valley cohort reporting that the in-depth planning and adaptive capacity developed as part of their ARI-funded projects helped them to survive an economic downturn which hit communities such as Stockton, Modesto and Fresno particularly hard.

POLICY AND RESEARCH

The Arts team is also providing leadership and resources to support a major research report on the California nonprofit arts sector by Professor Ann Markusen, director of the Project on Regional and Industrial Economics at the University of Minnesota. This project leverages the California Cultural Data Project and other key data sources to provide a comprehensive analysis of the sector, to be published in 2011.

ENGAGING PARTNERS

Given the lack of public funding for the arts, particularly in California, private foundations are important resources that help shape the nonprofit arts field through grantmaking decisions about what type of art to support. With that in mind, this area of work in the Arts program discusses our engagement with policymakers in the public sector such as the National Endowment for the Arts and the California State Legislature, but also includes our peers in the funding community.

We engaged with public sector policymakers at the federal and state level in 2010. In the spring, the Arts team developed the agendas for two day-long site visits by Rocco Landesman, chairman of the National Endowment for the Arts (NEA), in Los Angeles and San Francisco. One outcome of that visit was a \$250,000 grant to the San Francisco Arts Commission from the NEA Mayors' Institute on City Design 25th Anniversary Initiative to support the revitalization of

the mid-Market Street neighborhood by using art as an economic development strategy. At the state level, we hosted a well-attended legislative reception in Sacramento to help community foundations develop relationships with their respective state elected officials as part of the Communities Advancing the Arts initiative.

Our support for several key research projects provides direction for the nonprofit arts field and enables policymakers and arts leaders to better understand the ecosystem and make informed decisions. Through her participation in meetings and conference sessions and by contributing to the Americans for the Arts blog, Jeanne Sakamoto has helped advance the fields' understanding of the challenges and opportunities facing young emerging leaders in the arts. Her efforts were part of our project on Next Generation Arts Leadership, a collaboration with the Hewlett Foundation. Our support for reports on California's arts sector and the creative economy of Los Angeles also contributes to understanding of the sector.

LEARNING AND REFINEMENT

In this section we discuss key insights from a number of evaluation activities in 2010 and how we used those insights, and the act of measuring, to improve the work of our programs and grantees in the field.

Currently, there are two major evaluations underway in the Arts program, each at a different stage of development.

ARTS REGIONAL INITIATIVE

The evaluation of the second phase of the Arts Regional Initiative began in late 2009 with grantees in Southern California. In 2010 we were able to use the new evaluation measures to inform the guidance we provided Central Valley grantees during the proposal process. This helped clarify the goals of increasing cultural engagement and financial sustainability by providing specific indicators of progress towards those goals. Among the questions we explored: Does the organization have access to a line of credit? Do they have adequate operating reserves? And do they have systematic data about the interests and behaviors of their current audience? Program staff and consultants shared these definitions in the form of a self-assessment tool that was distributed with the grant proposal guidelines. This resulted in grantee proposals

that were more clearly aligned with the intent of ARI. Where there was need for adjustment, that guidance provided a useful reference point for discussing changes with the grantee.

ARTS INNOVATION FUND

When we established the Arts Innovation Fund in 2006, we built in resources for ongoing evaluation of the initiative with the goal of informing the management and decision making of this grantmaking on a year-to-year basis. This feedback on the results attained by various AIF grantees has generated a number of findings with varying degrees of significance that have influenced the course of how we have administered AIF. Central to these findings is the observation that professional operations staff can pose a roadblock to implementing innovation within major arts institutions. This is a common challenge for organizations of this type and we have observed a number of cases where an AIF grantee has been able to overcome this resistance and deliver successful innovation by utilizing cross-department teams to foster buy-in to the new practice and preemptively address the institution's bias against change. This finding has helped program staff provide feedback to potential grantees during the AIF proposal review process in 2010 and 2011 and has guided our decision making when selecting recipients from among competitive proposals. In 2011, we plan to share this and other insights from AIF to inform the field, particularly in view of the organizational change aspects of our new Arts strategy.

CONTEXT

For each of our programs, we compile a set of indicators that provide a comprehensive picture of the conditions and context for our work. Along with broader sets of data we use to analyze statewide trends, these indicators inform our strategic decisions and grantmaking. Following are indicators we use to better understand the arts and cultural sector in California.

ACCESS TO THE NONPROFIT ARTS SECTOR

California is home to nearly 11,000 arts and cultural nonprofits. Smaller organizations vastly outnumber large ones, with 83 percent of organizational budgets falling under \$250,000 and 47 percent under \$25,000. Los Angeles and the Bay Area are home to 65 percent of the arts and culture nonprofits in California, while all the

other regions of the state have many fewer organizations. However, research shows that several regions outside of Los Angeles and the Bay Area have significant numbers of organizations relative to their population. The Foundation's priority regions, the San Joaquin Valley and the Inland Empire, are notable in this analysis because they have fewer nonprofit arts and culture organizations in absolute and per capita terms.

Foundation grantmaking plays an important role in the regional supply of nonprofit arts in California. The following table shows that foundation grants to the arts in California totaled nearly \$250 million in 2009. Ninety percent of those dollars went to organizations in the Bay Area and Los Angeles, which illustrates the challenges that arts leaders outside of those regions have in attracting resources.

FOUNDATION SUPPORT FOR THE ARTS BY REGION, 2009

Region	Private Foundation Grantmaking	Grant Dollars Per Capita
North Coast and North State	\$1,481,309	\$3.59
Sierra	\$26,800	\$0.09
Bay Area	\$81,653,877	\$11.47
Central Coast	\$8,283,935	\$5.94
Northern Valley	\$2,087,088	\$3.08
Sacramento Metro	\$3,140,280	\$1.48
San Joaquin	\$985,100	\$0.25
Los Angeles Metro	\$141,092,447	\$10.32
Inland Empire	\$3,037,978	\$0.73
San Diego & Imperial	\$8,159,433	\$2.53
Statewide	\$249,948,247	\$6.76

Source: Foundation Center, Philanthropy In/Sight

The next table compares state funding for arts agencies for a selection of states that seemed comparable to California in terms of population, demographics and the vibrancy of their arts and culture sectors. As in past years, state funding for the arts council remained flat in 2010 and left the state at the bottom of this ranking of per capita state arts agency funding.

STATE GOVERNMENT FUNDING FOR SELECTED ARTS AGENCIES, 2010

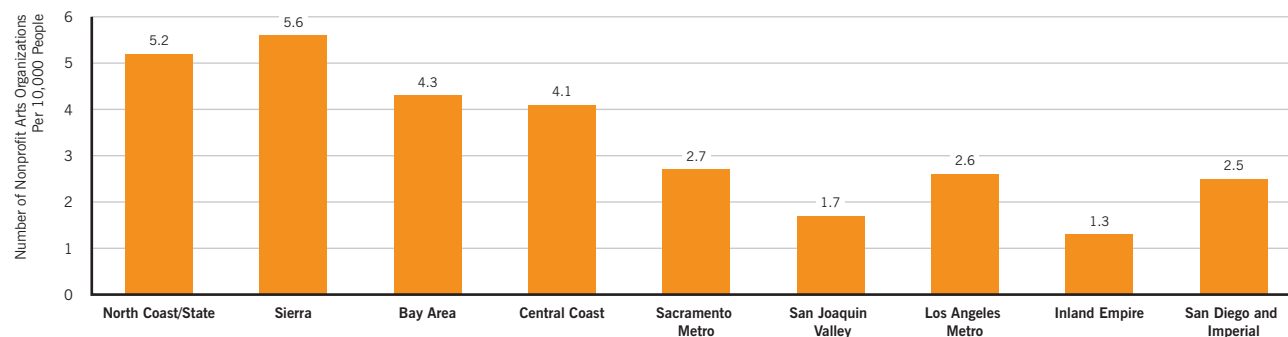
State	Arts Agency Revenue from State, FY2010	State Funds per Capita	Rank
Minnesota	\$30,274,000	\$5.80	1
New York	\$52,032,000	\$2.67	3
New Jersey	\$17,047,000	\$1.96	8
Connecticut	\$6,449,519	\$1.84	10
Massachusetts	\$9,692,945	\$1.49	11
Pennsylvania	\$11,992,000	\$0.96	21
Illinois	\$7,552,800	\$0.59	29
Washington	\$1,876,000	\$0.29	44
Florida	\$2,500,000	\$0.14	49
California	\$4,300,000	\$0.12	50

Source: National Assembly of State Arts Agencies

ARTS ATTENDANCE

Data on arts attendance and participation illustrates the demand for arts activities. The National Endowment for the Arts (NEA) conducts a Survey of Public Participation in the Arts every five years. This analysis shows that Californians attend arts events at higher rates than the nation as a whole, but within California we find that participation is lower outside of major metropolitan areas. The NEA's research suggests that participation increases

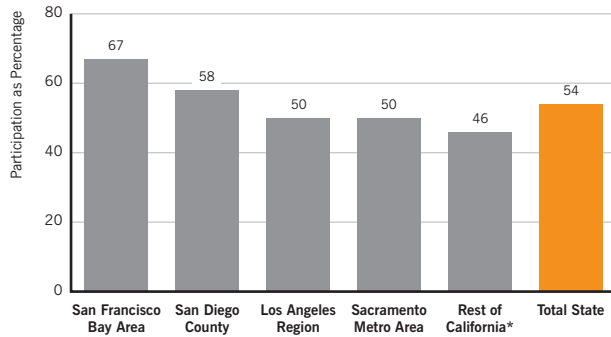
REGIONAL DISTRIBUTION OF NONPROFIT ARTS IN CALIFORNIA



Source: California Cultural Data Project, Analysis by Ann Markusen

in places with high levels of education, low poverty rates and a high concentration of performing arts centers. It may also be worth noting that other analysis by the NEA shows that arts patrons are particularly active members of their communities who are more likely to vote, volunteer or take part in community events.

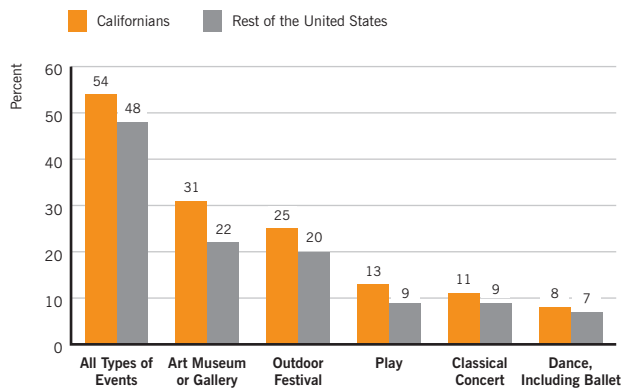
ARTS ATTENDANCE BY REGION, 2008



Source: National Endowment of the Arts, Survey of Public Participation in the Arts

*Remaining regions in California are grouped together due to sampling constraints

ARTS ATTENDANCE BY TYPE OF EVENT, CALIFORNIA AND NATIONALLY, 2008



Source: National Endowment of the Arts, Survey of Public Participation in the Arts

Note: Attendance rate reflects percent of the adult population (18+ years old) attending at least one of listed events in past year.

PROGRAM IMPACT
CALIFORNIA DEMOCRACY

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Expanding Opportunity for the People of California

PROGRAM DESCRIPTION

The goal of the California Democracy program is to advance effective public policy decision making that is reflective of and responsive to all Californians.

We believe that an effective, accountable governing system and broad civic engagement are critical, interrelated aspects of a healthy democracy. We envision a California democracy that is truly reflective of and responsive to all Californians. Such a democracy serves as the basis of a well-functioning government that can steward public resources effectively and efficiently.

We make grants in the priority areas listed below. Throughout our work we emphasize a nonpartisan, problem-solving approach and engagement with a diverse array of populations.

- **Governance Reform** — We make grants to improve state and local governance, with a focus on budget and fiscal systems, election policies and practices, and the state redistricting process.
 - For example, California Forward is a bipartisan organization bringing Californians together to advance governance and fiscal reforms that lead to a more responsive, effective and accountable government in California.
- **Civic Engagement** — We make grants to increase opportunities for civic engagement among historically underrepresented communities, including low-income, ethnic and immigrant populations
 - For example, the Families Improving Education Initiative builds the capacity of organizations in the San Joaquin Valley and Inland Empire to lead public engagement in educational decision making.

2010 GRANTMAKING

In 2010, grants to support California Forward and California Calls (formerly named the California Alliance) accounted for a significant portion of the grants in the Governance Reform priority. Civic Engagement grants awarded last year funded a variety of approaches to engage underrepresented residents in public decision making at a local level throughout California, and efforts to strengthen connections among grantees.

CALIFORNIA DEMOCRACY GRANTMAKING BY PRIORITY, 2010

Priority	Number of Grants	Amount (Millions)	
Governance Reform	13	\$9.1	61%
Civic Engagement	14	\$5.2	35%
Special Projects	4	\$0.6	4%
Total	31	\$15.0	100%

OUTCOMES

In 2010, we saw important progress toward our Governance Reform goals. As described below in the bulleted list of “progress indicators,” key policies were enacted and alliances strengthened. Also, the state governance reform field developed considerable capacity to advance additional reforms in 2011 and 2012. At the same time, the indicators show how the reality of changing political opportunities can reshape priorities during the year.

In the Civic Engagement arena, grantees involved thousands of Californians in productive discussions with public officials that shaped policies affecting their lives. We have found the use of progress indicators to track our Civic Engagement activities to be helpful and we are refining how we measure progress in this arena in 2011.

GOVERNANCE REFORM

BUDGET AND FISCAL REFORMS

- Enactment of governance reforms
 - Majority vote budget enacted
 - Open primary system enacted
 - Independent redistricting system affirmed by voters
 - Remaining policy goals include performance-based and long-term budgeting

- Key alliances solidified
 - California Forward established new relationships with diverse partners
 - California Forward's new outreach and communications staff are undertaking new approaches in 2011
- Collaboration among fiscal reform projects
 - California Forward is working closely with Think Long and California Calls
 - Think Long regularly cites its intention to build on California Forward's work
 - Most media coverage does not portray various reform efforts as competitive

REDISTRICTING OUTREACH AND IMPLEMENTATION

- Qualified, diverse commissioners
 - Qualified, diverse pool of potential commissioners applied
 - Qualified, diverse set of commissioners was selected
- Public involvement infrastructure established
 - A strong group of grantees are providing the public with information and tools for informed involvement in 2011 redistricting discussions

ELECTORAL POLICIES

- Adoption of Instant Runoff Voting (IRV)
 - IRV systems in place in various cities, but state-level adoption was not achieved
 - Due to new opportunities, other electoral reforms will be pursued in 2011
- Adoption of Election Day Registration
 - Election Day Registration was not realized as the establishment of the state's voter database remains far behind schedule
 - Other voter access reforms were enacted (though not yet implemented), including pre-registration of 17-year-olds and online voter registration

CIVIC ENGAGEMENT

- More than 10,000 underserved residents engaged in constructive public policy discussions:
 - Over 20,000 underserved residents engaged in constructive public policy discussions, including, for example:
 - Town halls with public officials in Los Angeles to discuss immigrants and health issues
 - Meetings of San Bernardino residents with the new Environmental Protection Agency Region 9 administrator to discuss the Green Zones concept
 - Discussions among San Bernardino residents and Housing and Urban Development officials, local housing agencies and the District Attorney to address foreclosure prevention
- New public policies responsive to residents' input
 - Community organizations working with residents advanced more than 50 policy changes. These include:
 - Buffer zones between pesticide fields and schools in the San Joaquin Valley
 - Residents shaping a land use plan in East Los Angeles
 - Regulations protecting homeowners from polluting industries in San Diego
- Establishment of new civic engagement practices
 - Reflecting a new element of focus in our program beginning the prior year, some organizations sought to achieve ongoing mechanisms for public engagement. Thirteen such mechanisms were achieved, including:
 - The creation of Modesto's Airport Collaborative, in which public officials and residents regularly discuss neighborhood improvement plans
 - The establishment of San Bernardino's Environmental Justice Intervention Task Force, in which public officials, residents and health experts strategize to mitigate air pollution

- Beginning replication of models
 - As the models were just implemented, replication has occurred to a limited extent
 - In 2011, we plan to increase efforts to share successful models through Irvine communications and grantee networking

LEARNING AND REFINEMENT

In this section we discuss key insights from a number of evaluation activities in 2010 and how we used those insights, and the act of measuring, to improve the work of our programs and grantees in the field.

In 2010, updates from the evaluation of California Forward's governance reform work provided timely input for our grant renewal that was approved by our board in October. The themes from the interim evaluation report on California Forward reinforced Irvine's perceptions of the organization's strengths and challenges.

California Forward played an important role in framing policy discussions about governance and fiscal reforms, and adhered to a bipartisan approach in its work. The evaluation findings and recommendations about a need for greater involvement among the general public led California Forward to focus more attention on this area of its work.

Specifically, California Forward enhanced its staff capacity in communications and outreach, hiring individuals and consultants with deep experience as well as strong networks in diverse communities. The organization's leadership also prioritized reaching out to leaders of significant civic efforts beyond the state capitol. In addition, California Forward bolstered its online communications systems so as to better communicate about its goals and activities and encourage public engagement in and support for its efforts.

The external analysis provided by that evaluation helped advance shared understanding among staff at the various funding foundations and at California Forward. However,

we also recognized that the next phase of assessment work could be more informative to California Forward if the organization contracts directly with external expertise.

California Forward has selected a firm led by Julia Coffman that specializes in the evaluation of advocacy, public policy and systems change efforts. Coffman conducts evaluations for strategic learning and has worked in the past with three of California Forward's five funders, including Irvine. Coffman and her team will work collaboratively with California Forward and focus on embedding evaluative practice and tools that can be sustained beyond their consulting engagement. We look forward to learning from this approach, which is relatively new to Irvine.

CONTEXT

For each of our programs, we compile a set of indicators that provide a comprehensive picture of the conditions and context for our work. Along with broader sets of data we use to analyze statewide trends, these indicators inform our strategic decisions and grantmaking. Following are indicators we use in the California Democracy program.

GOVERNANCE REFORM

Two elections in 2010 offered Californians the opportunity to vote on important initiatives to advance governance and fiscal reform. In June, voters approved Proposition 14 to create an open primary system. The November ballot contained various reform-related initiatives, including those listed below. Voters' confidence in the state legislature and governor remained near record lows throughout 2010, likely contributing to the support for a series of structural governance reforms.

Proposition	Yes	No
14 – Top Two Candidates Open Primaries	54%	46%
20 – California Congressional Redistricting Initiative	61%	39%
25 – Majority Vote for Legislature to Pass the Budget	55%	45%
27 – Elimination of Citizen Redistricting Commission	40%	60%

REDISTRICTING

The application period for California’s Citizen Redistricting Commission closed in February 2010 with more than 25,000 Californians submitting their names to participate in the process of drawing new legislative districts for the state. Irvine grantees were key partners in the outreach that led to a diverse applicant pool. Over the course of the year, the State Auditor led a process to narrow the applicant pool and select 14 commissioners. The commission is made up of five Republicans, five Democrats, and four third-party registrants or “declined-to-state.” The demographic table below shows that this final group is more diverse than the applicant pool, adding to the credibility of this new process to determine legislative districts.

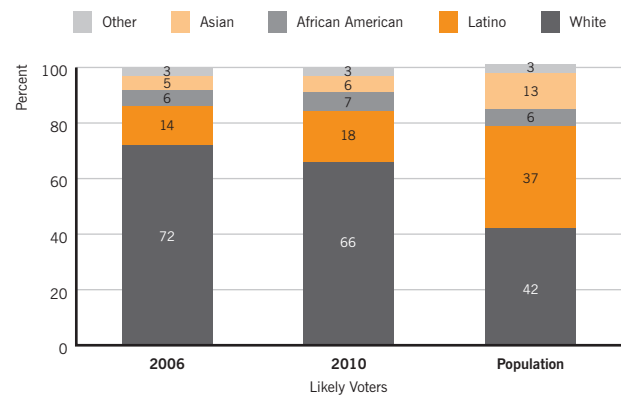
Region	Applicants N=25,908	Final Commission N=14	Population N=38.6 million
North Coast and North State	1%	0%	1%
Sierra Range	1%	0%	1%
Bay Area	24%	21%	19%
Central Coast	4%	7%	4%
North Valley	2%	0%	2%
Sacramento Metro	14%	7%	6%
San Joaquin Valley	6%	7%	10%
Los Angeles Metro	31%	36%	37%
Inland Empire	8%	7%	11%
San Diego and Imperial	8%	7%	9%
Race/Ethnicity			
White	72%	21%	42%
Latino	11%	21%	37%
African American	8%	14%	6%
Asian and Pacific Islander	5%	36%	13%
Other	4%	7%	3%
Total	100%	100%	100%

Source: <http://www.wedrawthelines.ca.gov/>

ELECTORATE ENGAGEMENT

Recently updated data from the Public Policy Institute of California provided in the chart below shows an increase between 2006 and 2010 of African Americans, Asians and Latinos in the state’s pool of likely voters. This shows progress in the diversity of the electorate, yet Asians and Latinos still do not vote at rates comparable to their proportion of the state’s population, illustrated by the bar on the right.

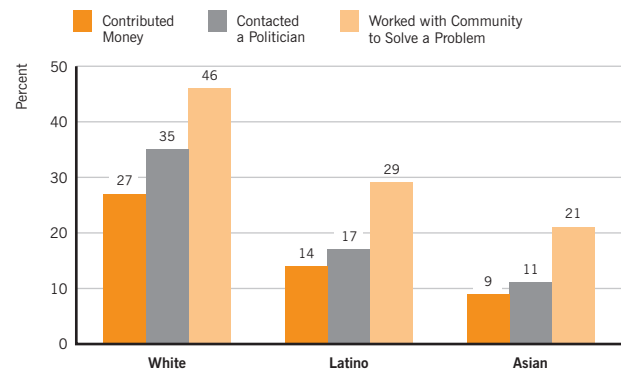
PERCENTAGE OF LIKELY VOTERS, 2010, BY RACE/ETHNICITY



Source: PPIC California Voter and Party Profiles, September 2010

The data below from a poll by the University of Southern California and the Los Angeles Times illustrates that political engagement among Latinos and Asians, according to various measures, remains below that of whites.

CIVIC ENGAGEMENT IN THE 2010 MIDTERM ELECTION, BY RACE/ETHNICITY



Source: University of Southern California and Los Angeles Times poll

PROGRAM IMPACT
YOUTH

the James Irvine foundation
Expanding Opportunity for the People of California

PROGRAM DESCRIPTION

The goal of the Youth program is to increase the number of low-income youth in California who complete high school on time and attain a postsecondary credential by the age of 25.

To support this goal, we are focused on expanding and advancing the Linked Learning field. This educational approach brings together strong academics, demanding technical education and real-world experience in a wide range of fields, such as engineering, arts and media, biomedicine and health. Linked Learning helps students gain an advantage in high school, postsecondary education and careers. The approach connects learning with student interests and job preparation leading to higher graduation rates, increased postsecondary enrollments, higher earning potential and greater civic engagement. Used in schools throughout California, this integrated approach helps students build a strong foundation for success in college and career — and life.

The Youth program advances Linked Learning through grantmaking in three areas:

- **Linked Learning Practice** — We support activities required to bring the Linked Learning approach to scale, including curriculum development, leadership and teacher development, and work-based learning programs. We support on-the-ground demonstration and evaluation of the model at three levels in California’s educational system:
 - **High Schools** — We support high schools in their efforts to strengthen and replicate the Linked Learning approach. The ConnectEd Network of Schools is providing critical evidence of the resources required for such work, what makes the model effective and how the programs can be replicated.
 - **School Districts** — Through the California Linked Learning District Initiative, we support California school districts that commit to making the Linked Learning approach a core part of their high school reform strategy. In doing so, we hope to better understand the successes and challenges of bringing Linked Learning to a broader range of California youth.
 - **Postsecondary Education** — Through the Concurrent Courses Initiative, we support efforts to strengthen the connection between high schools and community colleges using a Linked Learning approach.
- **Public Will for Linked Learning** — We seek to build public support through advocacy, coalition-building and communications activities that target educators, policymakers, business leaders, parents and students.

- **Linked Learning Policy** — We invest in policy research and analysis to support education policy reforms that result in broader adoption of the Linked Learning approach.

2010 GRANTMAKING

Of the three areas listed above, we find that activities that demonstrate the Linked Learning approach are more resource intensive, particularly those that build and support high-quality pathways. In 2010, the Linked Learning Practice area of the Youth portfolio supported expansion of the California Linked Learning District Initiative and expanded the capacity of key intermediary partners, including ConnectEd: The California Center for College and Career and the National Academy Foundation, to bring high quality Linked Learning programs to scale. Grantmaking to build Public Will for Linked Learning increased significantly in the past year as we began to work with regional coalitions of community-based organizations who are engaging parents and students in the Linked Learning approach. Grants in Linked Learning Policy aim to support new research and build evidence about the impact of Linked Learning for policymakers and among key groups of industry leaders.

YOUTH GRANTMAKING BY PRIORITY, 2010

Priority	Number of Grants	Amount (Millions)	
Linked Learning Practice	25	\$13.8	60%
Public Will for Linked Learning	10	\$3.2	14%
Linked Learning Policy	20	\$5.9	26%
Total	55	\$22.9	100%

OUTCOMES

In each of these focus areas the Youth team has identified multiyear indicators that assess their progress in establishing the key elements of Linked Learning and building a strong and coherent Linked Learning field in California. The changes we are seeing on these progress indicators, listed below, point toward growing momentum for Linked Learning.

PRACTICE

Support successful expansion, implementation and evaluation of the California Linked Learning District Initiative

- SRI evaluation report on district and student-level outcomes
 - Reviewed year one report with ConnectEd, districts and a group of grantees who are working on human capital and curriculum aspects of Linked Learning
 - Report showed that districts are implementing major reforms in context of tremendous fiscal pressure; student supports and equitable access to pathways are two key areas for attention in year two
 - Student outcomes analysis pushed back to 2010/11 school year to allow for certification process
 - Ten certified Linked Learning pathways
 - ConnectEd created a rigorous process for certifying high-quality pathways
 - As of January 2011, two pathways in the district initiative have been certified; 20 other pathways in the district initiative are scheduled for certification by June 2011
 - Increase the number of students enrolled in certified Linked Learning pathways
 - 930 students were enrolled in certified pathways at year-end 2010.
 - Future increases will result from the pathway certification process now underway; ConnectEd anticipates that 9,800 students will be enrolled in certified pathways by June 30, 2011
- Accelerate development of priority tools and resources to support high-quality practice
- Increase availability of tools and resources supporting work on the ground in three areas: curriculum, human capital and work-based learning
 - Digital Media Arts curriculum is complete and was recently accepted as fulfilling the “F — Visual and Performing Arts” subject area requirement for the University of California system; Law and Justice curriculum is being piloted at four high schools
 - Leadership development underway at district, pathway and principal levels
 - Linked Learning teacher preparation programs are at California State Universities in San Diego, San Bernardino, Fresno and Sacramento
 - Grantees are developing frameworks and models for work-based learning to illustrate best practices for the field
 - Identify and enhance the local and regional capacity of intermediary organizations who can extend and support Linked Learning practice
 - Key grants in 2010 focused on Los Angeles, San Bernardino, Santa Ana, Ventura, San Luis Obispo, Monterey and Merced
 - Apply Linked Learning across the Youth portfolio
 - Strategy developed to address out-of-school youth. Pilot grants awarded in October 2010
 - Postsecondary applications will be a focus in 2011

PUBLIC WILL

- Strengthen the governance, structure and staffing of the statewide coalition
 - Linked Learning Alliance structure established
 - Independent management/leadership is in place
- Continue to build parent, student and industry participation, locally and statewide
 - Supporting development of coalitions in four districts: Los Angeles, Oakland, West Contra Costa and Antioch

- Successfully implement marketing plan for Linked Learning
 - Communications consultant worked with 28 member organizations in the Linked Learning Alliance and six of the nine district initiative sites to assist with transition from Multiple Pathways terminology
 - Communications analysis shows that online use of “Multiple Pathways” is shifting to “Linked Learning”
- Capitalize on name roll-out to build awareness and additional support
 - SRI evaluation noted in recent formative memo that district leaders demonstrated a clearer understanding of Linked Learning approach in interviews

POLICY

- Monitor and leverage findings, recommendations and action steps of state Linked Learning study
 - California Department of Education study endorsed Linked Learning as a key strategy for transforming high schools
- Foster integration of Linked Learning as core statewide strategy in high school reform efforts
 - New California Board of Education includes members of the Linked Learning Alliance
 - The leaders of several large districts continue to advance reforms considered during the development of California’s Race to the Top proposal
- Position Linked Learning as an innovative strategy to attract federal funding
 - Linked Learning was featured in California’s Race to the Top grant submission
 - A joint effort by the Alliance for Regional Collaboration to Heighten Educational Success (ARCHES) and ConnectEd received a grant from the U.S. Department of Education’s Investing in Innovation fund for a STEM project

LEARNING AND REFINEMENT

In this section we discuss key insights from a number of evaluation activities in 2010 and how we used those insights, and the act of measuring, to improve the work of our programs and grantees in the field.

The first-year report on the California Linked Learning District Initiative portrayed an exciting and remarkably challenging year for the first six participant districts as they advanced the Linked Learning approach in the midst of a terrible budget crisis. The evaluation focuses on two key aspects of the initiative: the key ingredients for districtwide systems of Linked Learning pathways, and student educational experiences and outcomes. The evaluation report from the first year of this four-year evaluation focused on documenting early implementation activities and establishment of district structures and policies that support pathways. The report and other formative memos from SRI are providing early feedback to the Foundation, ConnectEd and the districts about the progress and variation in district approaches to ensure that the implementation meets expectations. In keeping with the “real time” nature of this type of evaluation, participants in the initiative are able to recognize and act on findings by SRI, learn from other participants’ experiences and make adjustments to the way they are working toward applying Linked Learning in their districts. Measuring the impact of Linked Learning on student outcomes will begin in year two, once we are confident that the students enrolled in pathways are experiencing rigorous academics and authentic career experiences.

The evaluation report shows that despite severe budget cuts and a complicated reform environment, district leaders remain committed to implementing Linked Learning in their districts. In the first year they worked to integrate academic and technical curriculum and establish leadership structures that share responsibility for pathways. The districts and ConnectEd have worked to establish consistent practice across districts while providing autonomy to allow districts to own the work themselves. The evaluation has made us aware of the continuing challenges of ensuring equitable student access to pathways, providing individualized student support

and scaling work-based learning opportunities to reach all students. These are key areas of focus and attention in year two of the initiative. Given our ongoing engagement with the district initiative, the report provided external confirmation to program staff at Irvine about the progress we saw in the early implementation. Based on the status of the initiative in June 2010, and in consultation with our external evaluation advisory group, we decided to wait to analyze student outcomes until the 2010/11 school year.

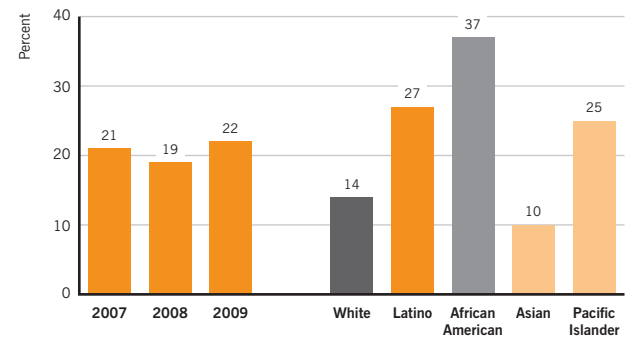
We spent several months in the fall sharing the findings with those grantees responsible for supporting key elements of the initiative, including but not limited to ConnectEd. We also gathered a group of grantees working to develop curriculum and leadership capacity to review the evaluation findings and strategize about relevant responses. In addition to reviewing the full evaluation report with grantee partners, SRI distributed the executive summary to district leaders and found in follow up conversations that they shared the view that the findings were confirmatory. The first year evaluation report and follow up memos are informing the planning currently underway for a potential renewal grant for the next two years of the initiative.

CONTEXT

For each of our programs, we compile a set of indicators that provide a comprehensive picture of the conditions and context for our work. Along with broader sets of data we use to analyze statewide trends, these indicators inform our strategic decisions and grantmaking. This section looks at indicators we use to inform our work in the Youth program.

The California high school dropout rate has hovered around 20 percent for the past three years, when the state Department of Education instituted a more accurate count of dropouts that excludes students who transfer to another district or out of state. The right side of this chart breaking down the 2009 rate by race shows the persistent achievement gap between African American and Hispanic students when compared to White and Asian students.

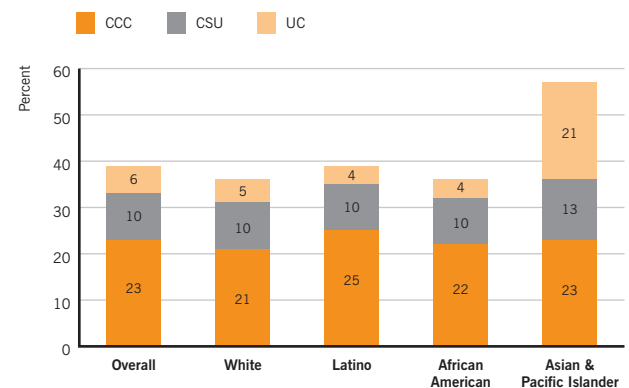
HIGH SCHOOL DROP-OUT RATE



Source: California Department of Education, 2008–09 school year

Our work to extend our focus to postsecondary education is informed by the recognition that overall postsecondary enrollment rates are under 40 percent (see below), much lower than they need to be, at a time when the importance of a postsecondary degree to future success has never been greater. Current data show that income levels and educational attainment are more closely linked than ever before.

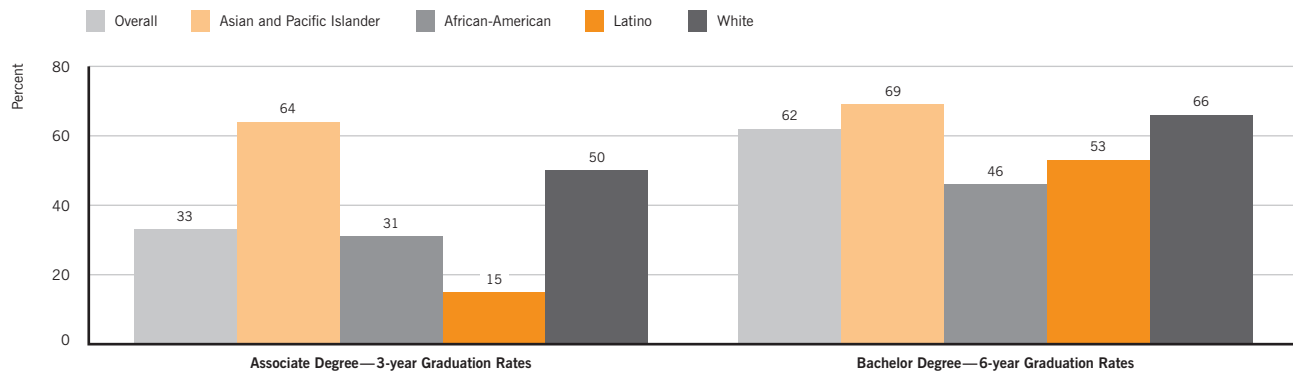
COLLEGE ENROLLMENT, 2009



Source: California Postsecondary Education Commission. Data for private universities is not available.

Ensuring greater access to postsecondary education is critical, but it represents only part of the challenge. Current data also emphasize the importance of focusing on postsecondary success and degree attainment. Once in college, for example, African American and Latino students are not as likely to complete their degrees as are Asian and White students.

COLLEGE COMPLETION, 2009



Source: California Postsecondary Education Commission

The table below shows the economic value of educational success—college graduates are more likely to be employed and earn more. This data further underscores the importance of developing pathways that allow more youth to earn postsecondary credentials.

EDUCATION AND EMPLOYMENT SUCCESS

	Unemployment Rate	Median Annual Earnings
Master's Degree	3.9%	\$65,000
Bachelor's Degree	5.2%	\$53,000
Associate's Degree	6.8%	\$40,000
Some College	8.6%	\$36,000
High School Graduate/GED	9.7%	\$33,000
Less than High School	14.6%	\$24,000

Source: Bureau of National Labor Statistics, 2009 data

PROGRAM IMPACT
SPECIAL INITIATIVES

the James Irvine foundation
Expanding Opportunity for the People of California

PROGRAM DESCRIPTION

In addition to our core programs, Irvine allocates a limited portion of its budget to Special Initiatives that complement and broaden the impact of those programs, advance our grantmaking principles and take advantage of compelling opportunities that are consistent with our mission.

Our grantmaking is informed by four principles that reflect our belief about how we can maximize our impact. These four principles are: Focus on Place, Invest in Organizations, Build Leadership and Engage Beyond Grants. Although these themes are present throughout our grantmaking, they are particularly important as guiding principles for the following Special Initiatives:

- **Community Foundations Initiative II**—This initiative seeks to accelerate the growth and leadership of selected small and emerging community foundations in rural areas of California. Our grants to these community foundations include funds that they, in turn, regrant to local organizations whose work is aligned with the goals of our Youth or Arts programs.
- **Community Leadership Project**—This project seeks to build the capacity of small and midsize organizations serving low-income communities and communities of color in the greater San Francisco Bay Area, Central Coast and San Joaquin Valley.
- **Fund for Financial Restructuring**—This fund seeks to support selected Irvine grantees as they work proactively to adapt to the economic downturn and position themselves for long-term financial health.
- **Fund for Leadership Advancement**—This fund seeks to enhance the leadership abilities of the executive directors of selected grantee organizations. We offer flexible support that is tailored to meet the needs of individual executive directors and designed to help make their organizations more effective.
- **The James Irvine Foundation Leadership Awards**—The awards seek to recognize and support California leaders who are advancing innovative and effective solutions to significant state issues.

2010 GRANTMAKING

Grantmaking in our Special Initiatives area was lower than in past years and included eight final grants as part of the Fund for Financial Restructuring, which helped competitively selected Irvine grantees develop strategies to adapt to a new economic environment and position them for long-term sustainability. We also made several grants to organizations that advance best practices in the nonprofit sector and philanthropy.

GRANTMAKING BY INITIATIVE, 2010

Priority	Number of Grants	Amount (Millions)	
The James Irvine Foundation Leadership Awards	17	\$2.1	40%
Fund for Financial Restructuring	8	\$1.0	20%
Fund for Leadership Advancement	10	\$0.7	13%
Community Leadership Project	3	\$0.2	4%
Community Foundations Initiative II	1	\$0.2	4%
Special Initiatives — General	6	\$1.0	19%
Total	45	\$5.2	100%

OUTCOMES

Following are selected accomplishments from 2010 that we believe set the stage for our work in 2011 to explore ways that we can opportunistically build on the portfolio, particularly in our priority regions (San Joaquin Valley and Inland Empire).

COMMUNITY FOUNDATIONS INITIATIVE II

This initiative aims to build philanthropic resources in underserved areas of California by working with a set of small community foundations to accelerate their growth and leadership capacity. The 2010 evaluation report (which reflects year-end 2009 data) shows that we have made significant progress toward our three goals:

- **Assets and donors:** Our grantees continue to grow at a faster pace than similar sized community foundations around the country. In 2009, when the assets of similarly sized community foundations shrank by 9 percent, CFI II grantees experienced asset growth of 7 to 11 percent. Cumulatively, the cohort's assets have grown from \$59 million in 2005 to \$123 million by the end of 2009.
- **Grants to the community:** Irvine's cohort increased their grantmaking substantially from 2008 to 2009, when grantmaking at peer foundations actually declined. Though performance varied substantially between cohort members, the trend line shows dramatic and consistent growth in the sophistication and amount of grants going to these underserved communities.
- **Community leadership:** Our grantees are beginning to take on outsized leadership roles in their communities and are doing so thoughtfully, driven both by their vision and mission as well as limitations in staff capacity. For example, the Napa Valley Community Foundation commissioned a research report to quantify the economic contribution of immigrants in the community, with a goal of initiating a conversation about a shared economic future between whites and Latinos in a county that is in the midst of one of the most dramatic demographic shifts in the state. They also plan to use the report to influence donor giving to address the challenges facing immigrant communities in Napa County.

As we looked toward the initiative's conclusion in 2011, we spent a significant amount of time in 2010 assessing what we have learned and planning how to best share those insights with the field. We engaged in market research to help us make choices about which lessons to package. The research also built an eager corps of "ambassadors" in the field to help disseminate the information. We prepared two reports that, while completed in 2010, are queued for release in early 2011.

COMMUNITY LEADERSHIP PROJECT

2010 was the first full year of implementation for the Community Leadership Project, which aims to build the capacity of small organizations in the San Joaquin Valley, Central Coast and Bay Area. The project is unique in two respects: its focus on community-based organizations led by and serving low-income communities and people of color regardless of programmatic field; and the three-way funding partnership between the Packard, Irvine and Hewlett foundations.

In 2010, our cadre of 27 intermediary regrants recruited and selected 100 community grantees in the San Joaquin Valley, Central Coast and Bay Area and launched their capacity-building and leadership development programs. While it is too early to assess how or whether our community grantees are growing in capacity, we do know that we are reaching our intended audience:

- All 100 community grantees are working in low-income and communities of color
- 70 percent of community grantees have an annual budget of less than \$500,000
- The grant dollars are reaching small organizations in the San Joaquin Valley (46 percent), Bay Area (41 percent) and Central Coast (13 percent)

Informally, participating organizations share a great deal of enthusiasm about the project's potential, and we have seen excitement and attention from other funders and leaders in the nonprofit field. The progress of CLP continues to be followed, and positively supported, by California legislators. We launched a formal evaluation of the project in 2010, which helped us clarify our intended impact and identify the short-term outcomes that will help us measure success.

FUND FOR LEADERSHIP ADVANCEMENT

The 2010 round of Fund for Leadership Advancement grantees marked the fifth year for the program that has supported customized leadership support for more than 50 executive directors of Irvine grantee organizations. Based on grantee reports and monitoring, we believe that the impact of this program remains consistent with earlier evaluation findings for most grantees. Participating leaders are able to better manage organizational change, work more effectively with their boards and perceive that they are better performing due to their Fund for Leadership Advancement work. Now that we have accumulated a substantial number of alumni of this program, we have decided to pause grantmaking in 2011 to conduct a program review and additional follow up with alumni to assess the key elements that make this type of support successful. We anticipate that this review will inform the planning in Special Initiatives.

THE JAMES IRVINE FOUNDATION LEADERSHIP AWARDS

Six leaders were recognized in 2010, joining a group that now numbers nearly 30. Award recipients have reported positive effects of the recognition, and several recipients cite the award as a factor in achieving the following results: substantial media coverage, new foundation supporters and major donors who referenced the award in their communications, new partnerships with key stakeholders, and greater access to policymakers. In 2010 we shifted the schedule for the 2011 awards so that our public announcement will coincide with the beginning of the legislative session in Sacramento. We also made several improvements to the program based on feedback from recipients, such as adding technical assistance on policymaker education to the menu of supports, that should help us gain even greater traction toward the award's core purpose to educate policymakers and practitioners about effective program models.

EXERCISING LEADERSHIP

the James Irvine foundation
Expanding Opportunity for the People of California

The Foundation exercises leadership by helping frame understanding of key issues facing California, supporting the formation and implementation of solutions to those challenges, and working collaboratively to achieve its mission and goals. The leadership we exercise in our programmatic fields and the field of philanthropy adds to the impact of our grantmaking. In this section we describe examples that demonstrate our leadership and discuss other activities that extend our impact and advance the Foundation's mission.

ENGAGING POLICYMAKERS

We have used Irvine's reputation, brand and relationships to bring policymakers together for events that highlight the innovative work of our programs and grantees.

- We recognized the 2010 James Irvine Foundation Leadership Awards recipients at a luncheon attended by more than 200 stakeholders, including the California State Senate Republican leader, the Senate President pro Tem, members of the California State Legislature and several agency leaders and key policymaking staff. Leadership Awards recipients were also recognized on the floor of the State Assembly with resolutions authored by their assembly representative.
- Last March, we organized two day-long visits by Rocco Landesman, chairman of the National Endowment for the Arts. The Arts team coordinated a series of panels and site visits in both San Francisco and Los Angeles that introduced the chairman to arts organizations and funders.
- The Arts team also collaborated with the Los Angeles County Arts Commission and Southern California Grantmakers to support a convening of the California Arts Funders group. We used that opportunity to highlight the California Cultural Data Project, an effort to strengthen the national nonprofit arts and cultural sector by systematizing financial and organizational data about arts organizations.
- The Youth team helped organize and participated in a briefing hosted by the Alliance for Excellent Education in Washington, D.C. to promote the Linked Learning approach as a model for national consideration. The five panelists represented key Linked Learning stakeholders including district leadership, the teachers union, community leaders, the chamber of commerce and the California Department of Education.
- More than 150 educators, policymakers and community partners attended a June meeting of the Linked Learning Alliance to discuss strategies for expanding quality pathways throughout California and to formalize a governance structure for the alliance. Of particular note, then-State Superintendent Jack O'Connell and a number of senior staff from the California Department of Education attended in order to discuss how to act on the recommendations in the AB2648 feasibility study on Linked Learning.
- In November, Jim Canales moderated a discussion with NEA Chairman Landesman and arts researcher Ann Markusen as part of the release of the 2010 Otis Report on the Creative Economy of the Los Angeles Region, which analyzes the combined economic impact of the arts, design and entertainment industries in Los Angeles and Orange counties. The event theme of The Power of Art and Artists provided an opportunity to talk to the audience of arts leaders about the vitality that arts provides in our communities and for our quality of life.

COMMUNICATIONS

We use a number of communications strategies to help partners and stakeholders in our programmatic fields understand our approach. As we all know, the tools and strategies are shifting rapidly, and this report provides an opportunity to take stock of how we are adapting. Notably, we did not publish any Irvine-branded publications. While this partly reflects a lack of research products that provide the content for our typical publications, it also directs attention to the non-Irvine outlets that we used to communicate about our work.

Last year we noted a decline in the number of news articles mentioning Irvine. This trend continued in 2010, when we found 59 news articles about our work and 25 blog posts. While the number of appearances is declining, we have been able to garner coverage of important programmatic work. In general, our work and

grantees in the Arts receive the most coverage. Rocco Landesman's visits to Los Angeles and San Francisco garnered substantial articles in the Los Angeles Times and the *San Francisco Chronicle*. The Leadership Awards also received significant attention, with many profiles of the programs that awardees have developed. All of our key efforts in Linked Learning, redistricting and governance reform also appear in a review of our coverage.

Publishing on websites and blogs of influential organizations is an effective way to target information to key audiences. In the spring, Irvine President and CEO Jim Canales contributed a series of four posts to the blog of the Center for Effective Philanthropy to discuss Irvine's annual performance reporting and reflect on what we are learning about the process. Jeanne Sakamoto, senior program officer for the Arts, was invited to discuss our support for the Next Generation of Arts Leadership in a "blog salon" on ARTSblog, the blog of Americans for the Arts. Jeanne's posts discussed how the study we commissioned helped us understand that the Arts field has a supply of potential leaders, but those leaders don't see opportunities for growth. This work was also discussed in a two-part interview that was recorded and posted online. Other posts in the series brought attention to the Creative Capacity Fund supported by Irvine and the Hewlett Foundation to provide grants for professional development for emerging arts leaders in California.

In addition, we began to use Twitter in earnest. The Communications team now tweets daily about key announcements from the Foundation and our partners, and we are using Twitter to direct attention to online content that we care about. Program staff contributed tweets from conferences and found themselves reported on in the tweets of others.

Last year we reported 184 followers of our feed @IrvineFdn. At the end of 2010 we had 774 followers. This is an impressive increase in one year, and we did not start the year with a target number of followers. An informal survey of foundations that we consider to be our peers, many of them have between 3,000 and 5,000 followers. Using the Social Mention search and analysis platform we know that our reach through these followers is modest so far, but we have had some success extending our reach through the viral effect of followers forwarding (retweeting) our messages. For example, several thousand

people viewed our Leadership Awards videos online, most of whom were informed of the videos by our followers who forwarded our messaging.

FIELD LEADERSHIP

The Foundation exhibits leadership in our program fields and philanthropy by organizing and participating in a broad range of conference sessions.

CONFERENCE PRESENTATIONS

Event Organizer	Title	Role
California Arts Funders	Arts Leadership Roundtable Discussion	Leader
Council on Foundations	Beyond the Cash Machine	Moderator
	New CEO Forum	Organizer
Grantmakers for Effective Organizations	Organizational Culture and Effective Grantmaking	Organizer
	Foundations and Communities of Color	Organizer
	Dashboards and Scorecards	Panelist
Grantmakers in the Arts	Holding On To What We've Got: New Approaches to Retaining Emerging Arts Leaders in the Field	Organizer
	Participatory Arts and Community Health: Challenges and Opportunities	Panelist
	Data-Driven Decision Making	Panelist
Independent Sector	Shaping State Fiscal Priorities and Processes	Panelist
Los Angeles Music Center	Active Arts Policy Forum	Organizer
Northern California Grantmakers	Being Grounded in Philanthropy	Presenter
Southern California Grantmakers	State Governance and Fiscal Reform	Moderator
	Post-Election Conversation: What do the Election Results Mean for Philanthropy?	Moderator
	A Conversation with Brad Smith, President, The Foundation Center	Moderator
	Building a Diversified Grant Strategy	Presenter
Bay Area Blacks in Philanthropy	Strengthening Our House	Panelist
The James Irvine Foundation and Fenton Communications	The New Normal: 12 Driving Forces in Communications	Organizer
Foundations and Endowments Investment Summit	Connecting the Dots: Engineering an Appropriate Feedback Loop to Meet Commitments In Any Financial Environment	Presenter
Association of Asian American Investment Managers	Innovation in Foundations and Endowments	Panelist

Through their individual roles on boards and advisory bodies, Irvine staff members identify opportunities to share insights we've learned and in turn learn from the work of others in our fields. For example, the Arts team was active in several advisory groups to research studies about public participation in the arts, the financial structure of nonprofit organizations and next generation leadership. California Democracy focused on sharing our experience with supporting redistricting work with two different funder organizations. Below is an illustrative list of boards, advisory groups and planning committees that our staff engaged with in 2010.

Also important in 2010 were several invitations to engage in planning and organizing groups that will be quite active in 2011. Most notable was Jim Canales' appointment to the White House Council for Community Solutions, a two-year engagement. Early signs are that much of the council's work will focus on developing a recommendation for addressing disengaged youth, which is synergistic with the Youth program's work around out-of-school youth. We will also be engaged in organizing several conferences of our peers in philanthropy. Anne Stanton has accepted the role of conference chair for the 2011 Grantmakers in Education conference to be held in Los Angeles. Ted Russell, senior program officer for the Arts, is a co-chair for the 2011 Grantmakers in the Arts conference in San Francisco. Looking even farther out, Jim will chair the 2012 conference of the Council on Foundations, which will also be held in Los Angeles.

BOARDS, ADVISORY GROUPS AND PLANNING COMMITTEES

Southern California Grantmakers	Vice Chair	Board of Directors
City of Los Angeles	Vice President	Department of Cultural Affairs Commission
Emerging Practitioners in Philanthropy	Chair	Communications Committee
BoardSource	Member	Next Generation Advisory Committee
California Department of Education	Member	Statewide P-16 Council
Center for Effective Philanthropy	Member	Advisory Board
Council on Foundations	Member	Technology Affinity Group Board of Directors
Emerging Practitioners in Philanthropy	Member	Steering Committee
Foundation Financial Officers' Group	Member	Board of Directors
Funders' Committee for Civic Participation	Member	Redistricting Committee
Grantmakers for Education	Member	Board of Directors
Grantmakers for Effective Organizations	Member	Membership Committee
National Committee for Responsive Philanthropy	Member	Advisory committee on civic engagement/public policy advocacy
National Endowment for the Arts	Member	National Festival Study Working Group
National Endowment for the Arts	Member	Survey of Public Participation in the Arts Working Group
California Arts Advocates	Participant	Visioning Retreat
Grantmakers in the Arts	Participant	National Capitalization Project

CONSTITUENT FEEDBACK

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Every year, we gather formal and informal feedback from key constituencies in order to understand their perceptions of Irvine and our programmatic work. In 2010, we commissioned our second Grantee Perception Report (GPR) from the Center for Effective Philanthropy (CEP). The GPR provides comparative, anonymous feedback from our grantees, giving us a candid perspective on our work that we might not otherwise receive.

CEP has delivered grantee perception reports to more than 250 foundations and 37,000 grantees. That comparative dataset allows us to evaluate our data relative to the broad field of philanthropy, as well as a custom cohort of foundations that we have identified as most similar to Irvine in grantmaking approach. This year we were also able to compare the data to grantee responses from 2006, the last time we commissioned a GPR.

CEP surveyed our grantees about a number of topics including their interactions with Irvine, the burden and benefit of our grantmaking procedures, their

understanding of our goals, and their perception of the Foundation’s impact in program fields and communities. For more about the report, including a summary of what we learned from our grantees and what we’re doing about it, visit the following links:

SUMMARY OF 2010 GRANTEE PERCEPTION REPORT

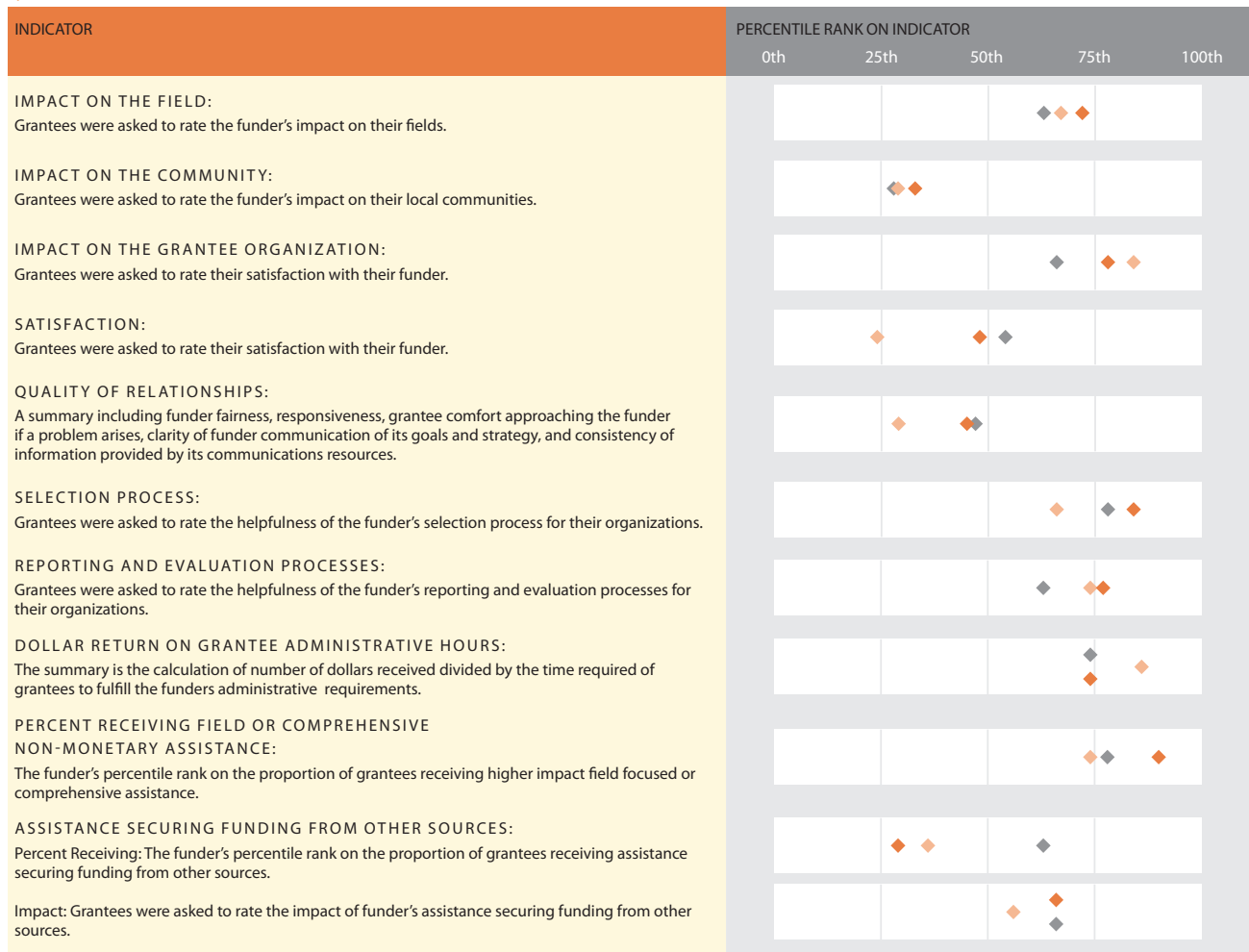
<http://www.irvine.org/evaluation/foundation-assessment/2010-grantee-perception-report>

FULL 2010 GRANTEE PERCEPTION REPORT

http://www.irvine.org/images/stories/pdf/eval/2010_grantee_perception_report.pdf

2010 GRANTEE PERCEPTION REPORT

Chart shows the percentile rank of Irvine Core 2010 (◆), Irvine Core 2006 (◆), and the median comparative cohort foundations (◆) among all funders in the comparative set.



FINANCE AND ORGANIZATION

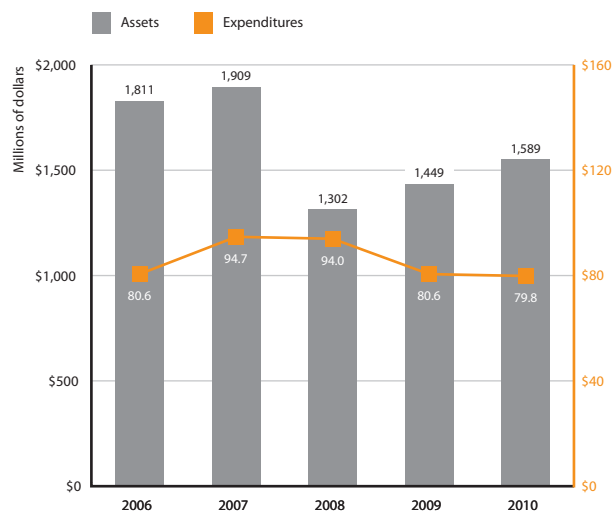
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The information in this section reviews our 2010 investment performance and portfolio allocation, ratios of operating expenses, and board and staff demographics. Regarding key institutional developments, this year we also provide a summary of the findings from a third-party staff survey, and the related follow up to key findings.

INVESTMENT PERFORMANCE

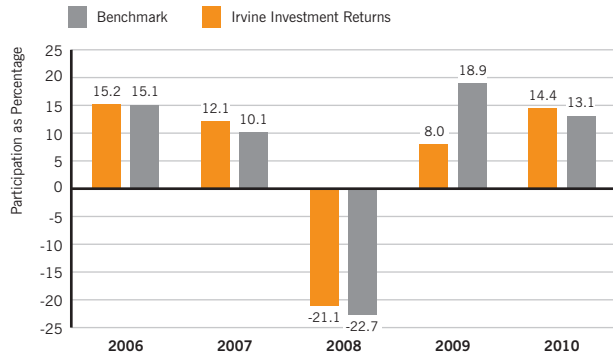
The chart below summarizes the Foundation’s assets and expenditures over the past five years. Irvine’s endowment continued to recover from the effects of the 2008 economic crisis.

OVERVIEW OF ASSETS AND EXPENDITURES, 2006–2010



The chart at right, based on analysis by Callan Associates, shows our investment returns relative to our benchmark for each of the past five years. The endowment earned 14.4 percent in 2010, exceeding its benchmark by 1.3 percentage points and ranking in the top quartile of our comparative universe. This was the fourth year out of the last five that the endowment exceeded its benchmark. This performance was driven by strong returns in several asset classes offset by continued poor performance in the Foundation’s real estate portfolio, though even that portfolio is showing signs of stabilizing. The portfolio was also affected by the same timing issue that contributed to the poor relative performance in 2009.

INVESTMENT RETURNS, 2006–2010



The majority of the underperformance in 2009, approximately 8.5 percentage points, is attributable to the Foundation’s private equity portfolio. The year-end value of investments in this portfolio is estimated because the equities that it contains are not traded in a public market. The values reported here are conservative estimates by the Foundation’s investment partners and they are delayed by one or more quarters. Furthermore, the benchmark for this asset class is based on a public equity index and reflects the movements on public equities in real time. In 2009, that index was up more than 35 percent and our actual returns lagged significantly. However, over the long term we expect the private equity holdings to be very good investments.

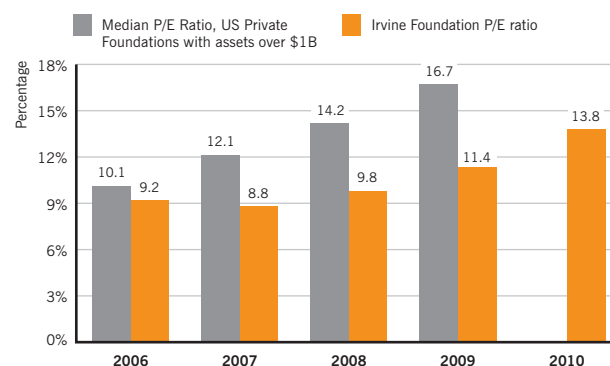
ASSET ALLOCATION

The Foundation invests in a wide range of asset classes in order to maintain a diversified investment portfolio. The following table comparing our target allocations against our December 2010 actual investments shows that we have fulfilled a goal of shifting a greater focus to alternatives. There are two asset classes where actual investments are materially greater than the long-term target: private equity and special situations. In both of these asset classes the overweight reflects both market conditions and our view of prospective returns.

ASSET CLASS	2010 ACTUAL	2010 TARGET
Domestic Equity	17	18
International Equity	17	18
Fixed Income	9	14
ALTERNATIVE INVESTMENTS		
Private Equity	24	18
Real Estate	8	10
Absolute Return Strategies	8	10
Special Situations	15	10
Real Assets	3	2
Alternative Investments subtotal	58	50
Portfolio Total	100	100

GRANTMAKING AND EXPENSES

The operating efficiency of private foundations can be measured by the program expense ratio (P/E ratio), which is the ratio of total operating expenses allocated to programs, divided by total grantmaking. We regularly track and report on this data because we have access to ratios from other foundations for comparative purposes through the Foundation Financial Officers Group's (FFOG) administrative costs survey, which provides a benchmark group of 39 private U.S. foundations with assets over \$1 billion. The most current data available from the FFOG survey is 2009, which is provided in the chart below.



In 2010 we continue to see a rise in our P/E ratio as we build our internal capacity to advance programmatic goals during a period where grantmaking is level. The chart above shows that increasing P/E ratios are a trend among our peers as well. In the past our target has been to maintain a P/E ratio in the range of 10 to 12 percent, although that threshold was below average data from other foundations. In view of unchanged grant budgets and the trend among our peers, we are comfortable with our 2010 P/E ratio of 13.8 percent.

PERSONNEL

Given the increasing diversity of the state’s population and our mission to expand opportunity for the people of California, we place a high value on maintaining a diverse board and staff. The following tables show that we continue to maintain a diverse staff.

STAFF DEMOGRAPHICS

GENDER	2006		2007		2008		2009		2010	
Female	21	60%	22	58%	25	64%	23	56%	24	56%
Male	14	40%	16	42%	14	36%	18	44%	19	44%
ETHNICITY										
Latino	4	11%	4	11%	3	8%	4	10%	4	9%
Asian	7	20%	9	24%	10	26%	10	24%	11	26%
Black	4	11%	5	13%	7	18%	6	15%	6	14%
White	20	57%	20	53%	19	49%	21	51%	22	51%
TOTAL	35	100%	38	100%	39	100%	41	100%	43	100%

BOARD DEMOGRAPHICS

GENDER	2006		2007		2008		2009		2010	
Female	4	36%	5	38%	5	38%	5	42%	5	42%
Male	7	64%	8	62%	8	62%	7	58%	7	58%
ETHNICITY										
Latino	2	18%	2	15%	2	15%	2	17%	2	17%
Asian	2	18%	2	15%	2	15%	2	17%	2	17%
Black	1	9%	1	8%	1	8%	1	8%	2	17%
White	6	55%	8	62%	8	62%	7	58%	6	50%
TOTAL	11	100%	13	100%	13	100%	12	100%	12	100%

Note: Excludes President and CEO, who is an ex-officio member

STAFF HEADCOUNT AND TURNOVER

	2006	2007	2008	2009	2010
Number of Staff	36	38	39	41	43
Transitions	5	4	5	7	4
Turnover rate	13.9%	10.5%	12.8%	17.1%	9.3%
Median tenure			3.08	3.75	5.41

assessed the individual departures in 2009, we determined that most represented career opportunities for the departing staff members and did not suggest to us any human resources concerns specific to Irvine. Nevertheless, we remain attentive to the reasons our staff leave the Foundation to ensure we sustain a culture that supports and cultivates the growth and development of Irvine staff members.

The table above shows the gradual and deliberate increase in staff that is part of our commitment to programmatic strategies that benefit from staff time invested beyond the grant. In 2010, the staff turnover rate was 9.3 percent, which is on the low end of the range of 10 to 15 percent (or four-to-six staff per year) that is consistent with the trend over time. In 2009, the staff turnover rate was slightly above that range. As we

KEY INSTITUTIONAL DEVELOPMENTS

STAFF PERCEPTION SURVEY

In June we received a Staff Perception Report (SPR) based on responses to a survey administered by The Center for Effective Philanthropy. The SPR allows us to assess staff members' perceptions of the Foundation's effectiveness and job satisfaction on several component measures. The data is presented in comparison to other foundations who have participated in the survey and, since this was our second administration, we could also reference Irvine data from 2006.

CEP found that overall, Irvine staff are overwhelmingly positive about most key aspects of the Foundation's work, and these measures have improved since 2005. Irvine staff are more satisfied with their jobs than staff of typical funders, and more than 75 percent of staff indicate they are more satisfied with their jobs than they were last year. While staff make some suggestions for continued improvement in a few areas, staff identify "smart" employees, and "an incredibly positive, professional, respectful environment" as key strengths that make the Irvine Foundation a well-respected and effective leader in the field. In terms of areas for further exploration, we were encouraged to explore more thoroughly the feedback about risk tolerance at Irvine and employee empowerment.

Staff reviewed the full report findings individually and as a whole during an all-staff retreat, leading to several follow-up actions. The topics of risk and employee empowerment warranted more in-depth discussion by the staff and we decided to take a closer look at our performance assessment program to see if it could be fine-tuned to better meet the staffs' needs. The follow-up is being led by two small teams who are tasked with exploring the issues further and recommending changes to address the staff concerns.

NEW BOARD LEADERSHIP AND TRAVELING BOARD MEETINGS

This year was notable for the number of leadership changes among the Foundation's Board of Directors. Peter Taylor and Greg Avis assumed the roles of board chair and vice chair, respectively. Reggie Muehlhauser became chair of the Finance and Administration Committee, and Frank Cruz now leads the Committee on the Board. In addition to engaging new leadership, we also elected a new director, Sammy Hoi, who brings additional arts perspective as president of Otis College of Art and Design. We also welcomed Toby Rosenblatt to a new role as an advisor to the Investment Committee.

As discussed elsewhere in this report, the October board visit to the San Joaquin Valley was an important part of our work this year. The visit provided an opportunity to actively engage the board in the challenges and opportunities through the community dinner and site visits we conducted. We also heard afterwards that our partners viewed the visit as a unique embodiment of our commitment to them and the region. Given the board's interest in getting out and meeting with grantees and community leaders, it seems likely that we will seek more frequent opportunities for engagement in the diverse regions of California.

VIDEO CONFERENCING AND MOVING TOWARDS A PAPERLESS OFFICE

In order to facilitate interactions with a growing Los Angeles staff presence, we upgraded our videoconferencing technologies and installed webcams on staff computers that allow for one-on-one video chats.

We made several advances in our administrative procedures that increased efficiency and cut down on paper. Grants Administration instituted a process for the President and Board Chairman to approve relevant grants via digital signature. The Communications Department began delivering PDF-versions of the board book to board members who expressed an interest in using their digital tablet devices to review material.

LETTER FROM THE CHIEF INVESTMENT
OFFICER AND TREASURER

the **James Irvine** foundation
Expanding Opportunity for the People of California

LETTER FROM THE CHIEF INVESTMENT OFFICER AND TREASURER

After a very difficult investment environment in 2008, Irvine's investment portfolio has now experienced two years of strong returns. While it is easy to attribute Irvine's strong performance in 2010 largely to the continued global rally that began in 2009, the ability and willingness to capitalize on this momentum were rooted in Irvine's investment discipline and long-term focus. This discipline left the Foundation with ample available capital to take advantage of irrationally low asset prices during the collapse in 2008. Similarly, the Foundation was better positioned to capitalize on the plethora of distressed sellers that surfaced across asset classes in the years since, as the global recovery failed to move quickly enough to accommodate many investors' liquidity needs. The fruits of these efforts showed themselves most prominently in Irvine's Special Situations portfolio, which returned 18 percent in 2010. The long-term focus, borne out of the Foundation's ultimate goal of serving the people of California in perpetuity, gave our investment staff the patience to stick with and continue to build out its Private Equity portfolio, which rebounded in 2010 to return 20.3 percent and remains well positioned for the future. In total, the endowment returned 14.4 percent for the year, beating the policy benchmark by more than 1.3 percentage points, and entered 2011 at \$1.6 billion according to our audited financial statements which follow.

While 2010 helped put 2008's collapse further in the rear-view mirror, Irvine's investment staff took the opportunity to revisit the crisis and contemplate policies that could have alleviated its effects. These internal discussions about what hurt or helped Irvine most during and since the downturn, supplemented by the experiences and lessons learned by some of our peer institutions, highlighted one portfolio management tenet above all else: the value of flexibility. In some cases, this meant the flexibility to act quickly to adapt to changing market conditions, while in others it meant the flexibility of having capital left to take advantage of opportunities when others had overcommitted their capital to illiquid investments. With this overarching theme in mind, we began to rethink how best to evaluate the role a potential investment would play in the portfolio and how subsequently to categorize that investment to help track the endowment's overall exposures.

After thorough discussion and extensive modeling to gain insight into how potential scenarios might play out in practice, staff, with our investment committee's concurrence, determined the investment landscape had changed sufficiently to warrant a new asset allocation approach. The crux of the change involved a shift from the traditional method of defining investments by asset classes to an approach focusing more on each investment's functional characteristics and expected role in the portfolio. Whereas traditionally investments were grouped based on the type of asset involved and the investment instruments or structure utilized, the new functional approach will group investments according to their expected risk, return, liquidity and diversification characteristics, with much less consideration of how those characteristics are attained. By paying less attention to how many stocks, bonds, buildings or other assets we own, and concentrating instead on how these assets are expected to perform in different market environments, we will be better able to understand the portfolio's true exposures, a critical component when weighing new opportunities.

In specific terms, this shift means moving from grouping investments according to the eight traditional asset classes, as listed below, to the four functional investment classes in the second list below.

INVESTMENTS BY ASSET TYPE

- U.S. Equities
- International Equities
- Fixed Income
- Absolute Return
- Private Equity
- Real Estate
- Real Assets
- Special Situations

INVESTMENTS BY FUNCTIONAL CLASS

- Global Public Equities
- Stable Value
- Private Investments
- Special Situations

Harking back to the value of flexibility, the new asset allocation framework provides us with the ability to avoid or materially underweight asset types facing unfavorable conditions given the current environment, and instead put that capital to work in better positioned areas. For instance, if real estate does not look attractive given current conditions, staff will not be forced to maintain an allocation to real estate based on a strategic asset allocation target to real estate. Instead, our investment staff can scour the investment landscape to find investment opportunities that meet the specific functional characteristics needed to remain within the established allocation range for the four new functional investment classes. While important constraints remain in place to ensure proper diversification, liquidity and risk budgeting, the new framework improves flexibility for Irvine to meet allocation goals while also targeting investments with the best risk-reward tradeoffs given the current investment environment.

The Foundation maintains a long-term view, with the objective of earning at least 5.5 percent on an annual basis after inflation and investment fees. In a world where meeting that objective is becoming increasingly difficult as the number of sophisticated investors continues to increase and investment products grow ever more complex, ensuring that Irvine is fully capitalizing on all of its relative advantages is critical. The new asset allocation approach, above all else, improves investment flexibility, the value of which was proven during 2008 and since. And we believe that this shift will better equip Irvine's investment staff to achieve its investment objectives over the long term.

Finally, we recognize that the rebound in the markets during 2009 and 2010 was not matched in the underlying economy. This reality is particularly true in California, where the unemployment rate is stuck at about 12 percent and many communities continue to struggle economically. In our minds, these ongoing challenges reinforce the broader meaning and importance of our investment work. As we seek to protect and maximize the Foundation's resources, we take pride in knowing that it is done in support of Irvine's mission of expanding opportunity for the people of California.



John R. Jenks, CFA
Chief Investment Officer and Treasurer
June 2011

FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT

the James Irvine foundation
Expanding Opportunity for the People of California

INDEPENDENT AUDITORS' REPORT

Board of Directors
The James Irvine Foundation
San Francisco, California

We have audited the accompanying statements of financial position of The James Irvine Foundation (the "Foundation") as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets and of 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, such financial statements present fairly, in all material respects, the financial position of the 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 accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the financial statements include investments valued at \$892,723,538 (58% of net assets) and \$779,441,130 (56% of net assets) as of December 31, 2010 and 2009, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

Deloitte + Touche LLP

June 15, 2011

THE JAMES IRVINE FOUNDATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
CASH — Interest-bearing deposits	\$ 18,438	\$ 16,029
COLLATERAL UNDER SECURITIES LENDING PROGRAM	77,609,490	63,761,283
RECEIVABLE FROM SALES/REDEMPTIONS OF INVESTMENTS	16,837,446	22,614,457
INTEREST AND DIVIDENDS RECEIVABLE	1,778,798	2,272,162
INVESTMENT CONTRIBUTIONS PAID IN ADVANCE		44,529,249
INVESTMENTS — Including \$75,096,606 and \$61,628,667 of securities loaned for 2010 and 2009, respectively — at fair value	1,568,653,184	1,377,507,067
PROPERTY AND EQUIPMENT — Net	1,463,608	1,835,284
OTHER ASSETS	<u>602,059</u>	<u>419,249</u>
TOTAL	<u>\$1,666,963,023</u>	<u>\$1,512,954,780</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Payable for purchases of securities	\$ 537,244	\$ 215,072
Payable under securities lending program	77,609,490	63,761,283
Accounts payable and other accrued liabilities	3,113,049	2,745,336
Deferred federal excise taxes	2,374,851	
Grants payable — net	<u>51,893,034</u>	<u>48,020,377</u>
Total liabilities	135,527,668	114,742,068
NET ASSETS — Unrestricted	<u>1,531,435,355</u>	<u>1,398,212,712</u>
TOTAL	<u>\$1,666,963,023</u>	<u>\$1,512,954,780</u>

See notes to financial statements.

THE JAMES IRVINE FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
INVESTMENT INCOME:		
Interest	\$ 8,742,647	\$ 9,343,174
Dividends and other income	10,915,263	13,287,062
Securities lending income	<u>147,868</u>	<u>285,691</u>
Investment income before net realized and unrealized gains on investments	19,805,778	22,915,927
Net realized and unrealized gains on investments	<u>195,961,816</u>	<u>217,753,278</u>
Total investment income	215,767,594	240,669,205
INVESTMENT EXPENSES	<u>7,080,281</u>	<u>6,124,112</u>
NET INVESTMENT GAIN BEFORE EXCISE AND INCOME TAXES	208,687,313	234,545,093
EXCISE AND INCOME TAXES	<u>2,742,543</u>	<u>433,016</u>
NET INVESTMENT INCOME	<u>205,944,770</u>	<u>234,112,077</u>
EXPENSES:		
Grants approved by the Board of Directors	64,508,450	66,288,370
Conditional grant activity and other — net	<u>32,296</u>	<u>482,191</u>
Grant expense — net	64,540,746	66,770,561
Program administration expenses	<u>8,181,381</u>	<u>7,655,039</u>
Total noninvestment expenses	<u>72,722,127</u>	<u>74,425,600</u>
CHANGE IN NET ASSETS — Unrestricted	133,222,643	159,686,477
NET ASSETS — Unrestricted:		
Beginning of year	<u>1,398,212,712</u>	<u>1,238,526,235</u>
End of year	<u>\$1,531,435,355</u>	<u>\$1,398,212,712</u>

See notes to financial statements.

THE JAMES IRVINE FOUNDATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets — unrestricted	\$ 133,222,643	\$ 159,686,477
Adjustments to reconcile change in net assets — unrestricted to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	434,763	412,846
Net realized and unrealized gains on investments	(195,961,816)	(217,753,278)
Changes in operating assets and liabilities:		
Interest and dividends receivable	493,364	896,397
Other assets	(182,810)	913,083
Accounts payable and other accrued liabilities	367,713	(213,206)
Deferred federal excise taxes	2,374,851	-
Grants payable	<u>3,872,657</u>	<u>146,730</u>
Net cash and cash equivalents used in operating activities	<u>(55,378,635)</u>	<u>(55,910,951)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(348,200,745)	(561,353,643)
Proceeds from sales, maturities, and distributions from investments	373,519,314	634,735,233
Change in non-cash collateral under securities lending program	(10,411,449)	(13,931,960)
Change in investment contribution paid in advance	44,529,249	(44,529,249)
Purchases of property and equipment	<u>(63,087)</u>	<u>(490,752)</u>
Net cash and cash equivalents provided by investing activities	<u>59,373,282</u>	<u>14,429,629</u>
CASH FLOWS FROM FINANCING ACTIVITY — Change in payable under securities lending program		
	<u>13,848,207</u>	<u>(14,409,427)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,842,854	(55,890,749)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>62,231,746</u>	<u>118,122,495</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 80,074,600</u>	<u>\$ 62,231,746</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Excise and income taxes paid (refunded)		
	<u>\$ 239,705</u>	<u>\$ (653,003)</u>

See notes to financial statements.

THE JAMES IRVINE FOUNDATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2010 AND 2009

1. ORGANIZATION

The James Irvine Foundation (the “Foundation”) is a private foundation dedicated to expanding opportunity for the people of California to participate in a vibrant, successful, and inclusive society. The Foundation’s grantmaking is organized around three program areas: Arts, Youth, and California Democracy, which focuses on increasing public understanding of critical issues facing the state and infusing new ideas into the policy development process.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. At December 31, 2010 and 2009, the Foundation had no temporarily or permanently restricted net assets.

Cash and Cash Equivalents — Cash and cash equivalents consisting of cash and short-term, fixed-income investments with maturities of three months or less at date of purchase at December 31, 2010 and 2009, are as follows:

	2010	2009
Cash, interest-bearing deposits	\$ 18,438	\$ 16,029
Short-term, fixed-income investments	26,790,081	12,386,394
Cash collateral under securities lending program	<u>53,266,081</u>	<u>49,829,323</u>
Total	<u>\$80,074,600</u>	<u>\$ 62,231,746</u>

Investment Contributions Paid in Advance — The 2009 balance represents contributions to investments which were made by December 31, 2009 but effective in January of 2010.

Investments — The Foundation maintains the following categories of investments:

- Short-term, fixed-income investments include commercial paper, demand notes, foreign currency, and corporate and government bonds. For statement of cash flows presentation purposes, these securities are considered to be cash equivalents, as such securities have original maturities of three months or less.
- Equity securities primarily consist of investments in both domestic and foreign corporate common stock securities.
- Alternative investments represent investments in limited partnerships, limited liability companies, onshore and offshore hedge funds, private real estate investment trusts, and other nonpublic investments.

- Fixed-income securities include holdings in corporate and municipal bonds, as well as U.S. government securities, various mortgage and asset-backed bonds, and convertible corporate debentures.
- Derivatives are financial instruments or contracts whose values depend on or are derived from (in whole or in part) the variability of one or more underlyings.

Short Sales — Shorting securities refers to selling investments that the manager may or may not own in anticipation of a decline in the price of such securities or in order to hedge portfolio positions, with the obligation to purchase such investments at a future date. The Foundation invests in partnerships and other private investment vehicles that engage in short selling. These securities have market risk to the extent that the Foundation's managers, in satisfying their obligations, may have to repurchase securities at a higher amount than that for which they were sold.

Derivatives — The Foundation does not designate any derivatives as hedges. Thus, the changes in fair value of derivative instruments are reported in net realized and unrealized gains (losses) on investments on the statements of activities and changes in net assets. Derivative investments are discussed further in Note 3.

Property and Equipment — Property and equipment are stated at cost and depreciated using the straight-line method over estimated useful lives of the assets ranging from three to seven years. Leasehold improvements are amortized over the lesser of the asset's useful life or the lease term.

Grants — Grants are expensed when the unconditional promise to give is approved by the Board of Directors. Conditional promises to give, consisting primarily of grants with matching requirements, are recognized as grant expense in the period in which the recipient meets the terms of the condition. Such conditions may also include other requirements, such as the requirement for a newly formed organization to successfully establish its 501(c)(3) status before the grant becomes unconditional. Grant refunds are recorded as a reduction of grant expense at the time the Foundation becomes aware the grant will be refunded.

Functional Expense Allocations — Expenses, such as salaries and payroll taxes, travel and meeting expense, depreciation and amortization, and rent, are allocated among investment expenses and program administration expenses based on employee ratios and estimates made by the Foundation's management. Investment expenses include investment management fees, custodial fees, and an allocation of the Foundation's operating expenses.

Pension Plan — The Foundation provides a defined contribution pension plan for all its employees. The plan is funded by the Foundation and maintained by an independent trustee.

The Foundation also has an unfunded deferred compensation plan for a select group of highly compensated or management employees under Internal Revenue Code Section 457(b). Subject to statutory limits, the Foundation contributes to the plan on behalf of eligible employees that did not receive their full contributions to the James Irvine Foundation Money Purchase Plan due to the Internal Revenue Service limits covering that plan. In addition, employees with annual base salaries of \$150,000 or above are eligible to make voluntary contributions. At December 31, 2010 and 2009, the Foundation held \$297,000 and \$222,000, respectively, in other assets which are designated to pay future deferred compensation liabilities under the plan of \$297,000 and \$222,000, respectively, that are included in other liabilities on the statements of financial position.

The Foundation's contributions to these plans were approximately \$1,109,000 and \$998,000 in 2010 and 2009, respectively.

Estimated Fair Value of Financial Instruments — The carrying amounts of cash, receivable from sales of securities, interest and dividends receivable, accounts payable and other accrued liabilities, and payable for purchases of securities approximate fair value because of the short maturity of these financial instruments. The carrying amount of grants payable approximates fair value because such liabilities are recorded at estimated net present value based on anticipated future cash flows.

Investments are held at estimated fair value. In general, where available and appropriate, alternative investments, which generally do not have a readily determinable fair value, are valued using fund-provided net asset values per share or ownership interest (NAVs) as allowed under Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Fair value is discussed further in Note 3.

Concentrations of Credit Risk — Financial instruments, which potentially subject the Foundation to credit risk, consist primarily of cash, cash equivalents, and investments. The Foundation maintains cash and cash equivalents with major financial institutions. At times, such amounts may exceed Federal Deposit Insurance Corporation limits.

Tax Exempt Status — The Foundation is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code.

Income Taxes — The Foundation recognizes and measures its unrecognized tax benefits in accordance with Accounting Standards Codification (ASC) 740-10, which requires the Foundation to determine whether tax positions of the Foundation are "more-likely-than-not" to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of December 31, 2010, the Foundation has analyzed the inventory of tax positions taken with respect to all applicable income tax issues for all open tax years (in each respective jurisdiction) and has concluded that no reserve for uncertain tax positions is required.

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. These estimates and assumptions 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 revenue and expenses during the reporting period. Significant accounting estimates reflected in the Foundation's financial statements include the determination of the fair value of investments (including alternative investments), the discount on grants payable, the calculation of federal excise taxes expense, and the functional expense allocation. Actual results could differ from those estimates.

Recent Accounting Pronouncements — In January 2010, the FASB issued and the Foundation adopted ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends ASC 820 (formerly FAS 157-4) to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels I and II of the fair value hierarchy, and the reasons for those transfers. ASU 2010-06 is effective January 2010. In addition, the guidance requires separate presentation of purchases and sales in the Level III asset reconciliation; this is effective January 2011. The adoption of this guidance did not have a material impact on the Foundation's financial statements.

3. INVESTMENTS

The net realized and unrealized gains (losses) on investments for the years ended December 31, 2010 and 2009, are comprised as follows:

	2010	2009
Net realized gains (losses) on investments sold	\$ 20,273,999	\$ (1,162,659)
Net unrealized gains on investments	<u>175,687,817</u>	<u>218,915,937</u>
Net realized and unrealized gains on investments	<u>\$ 195,961,816</u>	<u>\$ 217,753,278</u>

Fair Value Measurements — The Foundation is subject to the provisions of ASC 820-10, *Fair Value Measurements*. ASC 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value of an investment is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date (i.e., the exit price). In accordance with FASB ASU No. 2009-12, *Investment in Certain Entities that Calculate Net Asset Value Per Share*, the net asset value (NAV) per share or its equivalent is used to fair value investments that follow the American Institute of Certified Public Accountants (AICPA) Guide in arriving at their reported NAV.

ASC 820-10 also establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories. The categorization of an investment within the hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment.

Level I — Quoted prices are available in active markets for identical investments as of the reporting date. This category includes active exchange traded money market funds and equity securities.

Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III — Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Investments that are included in this category generally include privately held investments and securities held in partnership format. Reported valuations of Level III securities may differ materially from the values that would have been used had a ready market for these investments existed.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following tables present the financial assets and liabilities carried on the Statement of Financial Position by level within the valuation hierarchy as of December 31, 2010 and 2009.

	Fair Value Measurements			
	2010			
	Level I	Level II	Level III	Total
Assets:				
Collateral under securities lending program:				
Cash fund	\$ -	\$ 53,266,081	\$ -	\$ 53,266,081
Non-cash		24,343,409		24,343,409
	<u>-</u>	<u>77,609,490</u>	<u>-</u>	<u>77,609,490</u>
Short-term, fixed income investments		26,790,081		26,790,081
Equity securities	408,361,281	105,895,704		514,256,985
Fixed-income securities	8,589,009	124,396,586		132,985,595
Alternative investments:				
Private equity			410,958,752	410,958,752
Real estate investments			129,267,293	129,267,293
Absolute return			333,250,366	333,250,366
Real assets			19,247,127	19,247,127
Derivatives — total return swap		1,896,985		1,896,985
	<u>416,950,290</u>	<u>258,979,356</u>	<u>892,723,538</u>	<u>1,568,653,184</u>
Total investments				
	<u>416,950,290</u>	<u>336,588,846</u>	<u>892,723,538</u>	<u>\$ 1,646,262,674</u>

	Fair Value Measurements			
	2009			
	Level I	Level II	Level III	Total
Assets:				
Collateral under securities lending program:				
Cash fund	\$ -	\$ 49,829,323	\$ -	\$ 49,829,323
Non-cash		13,931,960		13,931,960
	<u>-</u>	<u>63,761,283</u>	<u>-</u>	<u>63,761,283</u>
Short-term, fixed income investments		12,386,394		12,386,394
Equity securities	369,005,191	74,176,751		443,181,942
Fixed-income securities	1,370,989	138,764,704		140,135,693
Alternative investments:				
Private equity			341,211,014	341,211,014
Real estate investments			99,830,569	99,830,569
Absolute return			320,473,307	320,473,307
Real assets			17,926,240	17,926,240
Derivatives — total return swap		2,361,908		2,361,908
	<u>370,376,180</u>	<u>227,689,757</u>	<u>779,441,130</u>	<u>1,377,507,067</u>
Total investments				
	<u>370,376,180</u>	<u>291,451,040</u>	<u>779,441,130</u>	<u>\$ 1,441,268,350</u>

The changes in investments classified as Level III are as follows for the years ended December 31, 2010 and 2009:

	Private Equity	Real Estate	Absolute Return	Real Assets	Total
Balance — January 1, 2010	\$341,211,014	\$ 99,830,569	\$320,473,307	\$ 17,926,240	\$779,441,130
Total realized and unrealized gains	37,217,886	5,134,091	52,096,979	1,320,887	95,769,843
Transfers in and/or out of Level III	-	-	-	-	-
Purchases	51,254,132	31,103,557	18,584,250	-	100,941,939
Sales	<u>(18,724,280)</u>	<u>(6,800,924)</u>	<u>(57,904,170)</u>	<u>-</u>	<u>(83,429,374)</u>
Balance — December 31, 2010	<u>\$410,958,752</u>	<u>\$129,267,293</u>	<u>\$333,250,366</u>	<u>\$ 19,247,127</u>	<u>\$892,723,538</u>
Change in unrealized gains included in the changes in net assets relating to Level III investments still held at December 31, 2010	<u>\$ 38,848,299</u>	<u>\$ 5,134,091</u>	<u>\$ 52,687,178</u>	<u>\$ 1,320,887</u>	<u>\$ 97,990,455</u>
	Private Equity	Real Estate	Absolute Return	Real Assets	Total
Balance — January 1, 2009	\$243,939,681	\$132,405,005	\$228,377,488	\$ 19,759,720	\$624,481,894
Total realized and unrealized gains (losses)	37,105,207	(52,981,952)	86,290,064	(1,833,480)	68,579,839
Transfers in and/or out of Level III	-	-	-	-	-
Purchases (sales) — net	<u>60,166,126</u>	<u>20,407,516</u>	<u>5,805,755</u>	<u>-</u>	<u>86,379,397</u>
Balance — December 31, 2009	<u>\$341,211,014</u>	<u>\$ 99,830,569</u>	<u>\$320,473,307</u>	<u>\$ 17,926,240</u>	<u>\$779,441,130</u>
Change in unrealized gains (losses) included in the changes in net assets relating to Level III investments still held at December 31, 2009	<u>\$ 37,146,616</u>	<u>\$ (52,981,952)</u>	<u>\$ 79,633,750</u>	<u>\$ (1,833,480)</u>	<u>\$ 61,964,934</u>

Total realized and unrealized gains and losses recorded for Level III investments, if any, are reported in “Net realized and unrealized gains (losses) on investments” in both the statements of activities and changes in net assets and the statements of cash flows.

There were no significant transfers between Level I, Level II and Level III of the fair value hierarchy during 2009 or 2010.

Alternative Investment Capital Contributions — The Foundation made capital contributions in 2010 and 2009 to alternative investments as called for by the investment agreements.

	2010	2009
Absolute return	\$ 9,055,001	\$ 55,274,541
Private equity	51,254,132	65,223,278
Real estate	<u>31,103,557</u>	<u>21,488,438</u>
Total	<u>\$ 91,412,690</u>	<u>\$ 141,986,257</u>

Alternative Investment Strategy and Redemption Information — The following table summarizes the investment strategy types and various features of the alternative investment portfolio as of December 31, 2010. The Foundation has commitments under the associated investment agreements to make additional capital contributions as noted.

	Fair Value	Unfunded Commitments	Redemption Frequency (if Eligible)	Redemption Notice Period (Days)
Absolute return (a)	\$ 333,250,366	\$ 35,933,559	Quarterly/semi-annually/annually/bi-annually	45–180
Private equity funds (b)	410,958,752	225,665,340		60–365
Real estate funds (c)	129,267,293	69,539,001		
Real assets (d)	<u>19,247,127</u>	<u>-</u>		
Total	<u>\$ 892,723,538</u>	<u>\$ 331,137,900</u>		

- (a) These funds invest both long and short primarily in U.S. and international equity or credit securities. Management of the hedge funds has the ability to shift investment strategies. Some of these investments contain redemption restrictions, including funds in partnership format which do not allow for redemption. Generally, the remaining restriction period for redeemable investments range up to 48 months at December 31, 2010, excluding any extension agreements. Several funds have entered a mandatory wind down mode and it is estimated that all capital from those funds will be returned over the next 4 years.
- (b) These funds invest in various public and private companies, both domestic and international. With the exception of two funds, these investments can never be redeemed. Rather, proceeds will be received when the funds' assets are liquidated. It is estimated that the underlying assets of all but those two funds will be liquidated over the next 15 years (by the year 2025), including likely extension agreements. Of the two remaining funds, one extends until the year 2039 and the other indefinitely. Both of those funds reset every 4 years, at which time the Foundation can opt out with proper notice.
- (c) These funds invest in U.S. and international commercial real estate. Generally, these funds cannot be redeemed. Rather, proceeds will be received when the funds' assets are liquidated and one fund has imposed withdrawal restrictions for the next three years. It is estimated that most of these funds will likely be liquidated over 3 to 10 years, including likely extension agreements.
- (d) This fund invests in various timberland holdings, both domestic and international. These investments can never be redeemed. Rather, proceeds will be received when the fund's assets are liquidated. It is estimated that the underlying assets will be liquidated over the next 4 years, excluding any extension agreements.

Derivatives — The Foundation accounts for derivative financial instruments as either assets or liabilities measured at fair value.

The Foundation uses derivative instruments to manage its exposure to market risks including inflation, for income enhancement and to provide diversification without actual ownership of the underlying asset. The Foundation's management believes the use of such instruments in its investment management

program is appropriate in providing for the long- and short-term financial needs of the Foundation. Though the use of these instruments reduces certain investment risks and generally adds value to the portfolio, the instruments themselves do involve some investment and counterparty risk.

Investment Managers retained by the Foundation may enter into forward currency contracts with various counterparties, primarily to facilitate securities settlements. Forward currency contracts are over-the-counter contracts for delayed delivery of currency in which the buyer agrees to buy and the seller agrees to deliver a specified currency at a specified price on a specified date. Because the terms of forward contracts are not standardized, they are not traded on organized exchanges and generally can be terminated or closed-out only by the agreement of both parties to the contract. During the period the forward contract is open, changes in the value of the contract are recognized as unrealized gains or losses. When the forward contract is closed, the Foundation records a realized gain or loss equal to the difference between the proceeds from or the cost of the closeout of the contract and the original contract price. As of December 31, 2010 and December 31, 2009, forward currency contract activity is not material to the financial statements.

The Foundation may also enter into swap contracts as part of its investment strategy. Total return swaps involve the exchange by the Foundation with another party of respective commitments to pay or receive interest or total return based on the value of a security, index or some other instrument applied to a notional amount throughout the lives of the agreements. Swaps may involve greater risks than if the Foundation had invested in the underlying security or index directly. In addition to the general market risks, swaps may be subject to greater liquidity risk and counterparty credit risk. The Foundation enters into swaps with counterparties that it considers to be well established and which meet certain criteria for financial strength. The notional amount of swaps is not recorded in the financial statements. Swaps are carried at fair value on the statements of financial position. The change in fair value is recorded as unrealized gains (losses) until the termination of the swap, at which time a realized gain or loss is recorded. At December 31, 2010 and 2009, the Foundation was a party to one commodities total return swap which settles monthly and can be canceled at any time by the Foundation without penalty; no collateral was pledged with the counterparty in conjunction therewith.

The notional and fair values of derivative investments at December 31, 2010 and 2009, and the realized and unrealized gains and losses on derivatives as included in the statement of activities and changes in net assets for the years then ended are summarized in the following table. This table excludes exposures relating to derivatives held indirectly through commingled funds and alternative investments:

	Notional	Fair Value	Realized Gain (Loss)	Unrealized Gain (Loss)
2010				
Total return swap	<u>\$ 30,000,000</u>	<u>\$ 1,896,985</u>	<u>\$ 6,601,016</u>	<u>\$ 1,896,985</u>
2009				
Total return swap	<u>\$ 30,000,000</u>	<u>\$ 2,361,908</u>	<u>\$ (195,805)</u>	<u>\$ 2,361,908</u>

4. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2010 and 2009, consist of:

	2010	2009
Office furniture and equipment	\$ 1,440,915	\$ 1,377,828
Leasehold improvements	<u>1,874,680</u>	<u>1,874,680</u>
Total	3,315,595	3,252,508
Accumulated depreciation and amortization	<u>(1,851,987)</u>	<u>(1,417,224)</u>
Property and equipment — net	<u>\$ 1,463,608</u>	<u>\$ 1,835,284</u>

5. GRANTS

The following table summarizes for the years ended December 31, 2010 and 2009, the Foundation's grant activity:

	2010	2009
Grants approved by the Board of Directors	<u>\$ 64,508,450</u>	<u>\$ 66,288,370</u>
Add (deduct) conditional grant activity and other:		
Conditional grants made	(417,040)	-
Conditions met on conditional grants made in prior years	50,000	100,000
Change in discounts on multiyear grants — net	732	45,789
Matching gifts program	<u>398,604</u>	<u>336,402</u>
Conditional grant activity and other — net	<u>32,296</u>	<u>482,191</u>
Grant expense — net	<u>\$ 64,540,746</u>	<u>\$ 66,770,561</u>

Future minimum grant disbursements as of December 31, 2010, are scheduled as follows:

	Unconditional	Conditional
2011	\$ 40,999,581	\$ 208,557
2012	8,173,868	208,483
2013	<u>2,759,000</u>	<u>-</u>
Total	51,932,449	417,040
Less discounts on multiyear grants	<u>(39,415)</u>	<u>-</u>
Grant payable — net	<u>\$ 51,893,034</u>	<u>\$ 417,040</u>

6. EXCISE AND INCOME TAXES

In accordance with the applicable provisions of the Code, the Foundation is subject to an excise tax of 2% (1% if minimum payout requirements prescribed by the Code are met) on its net investment income, excluding unrealized gains, as defined, and is subject to corporate income tax rates on unrelated business income. The Foundation was subject to the 1% rate in 2010 and 2009. In addition, the Code requires that certain minimum distributions be made in accordance with a specified formula. At December 31, 2010 and 2009, the Foundation had made the required minimum distributions.

Deferred excise taxes arise primarily from unrealized gains on investments. At December 31, 2010, deferred federal excise tax is estimated at 2%, which is the maximum rate payable.

The provision for current and deferred federal excise and income taxes for the years ended December 31, 2010 and 2009, is as follows:

	2010	2009
Current	\$ 367,692	\$ 433,016
Deferred	<u>2,374,851</u>	<u>-</u>
Excise and income tax expense	<u>\$ 2,742,543</u>	<u>\$ 433,016</u>

7. LEASE COMMITMENTS

The Foundation leases its facilities under long-term noncancelable operating leases. Approximate future minimum lease payments, subject to adjustments based on changes in real property taxes and maintenance expenses, as of December 31, 2010, are as follows:

Years Ending December 31	Total
2011	\$ 826,818
2012	836,866
2013	850,586
2014	864,402
2015	356,108
Thereafter	<u>375,238</u>
Total	<u>\$4,110,018</u>

Rental expense was approximately \$709,000 and \$718,000 in 2010 and 2009, respectively.

8. SECURITIES LENDING

Through a securities lending program, managed by its investment custodian, the Foundation loans certain marketable securities included in its investment portfolio. The Foundation's investment custodian has indemnified the Foundation against the counterparty risk. The custodian's loan agreements require the borrowers to maintain collateral in the form of cash or securities equal to 102% to 105% of the fair value of the securities loaned. The Foundation maintains control over the collateral and also continues to receive interest or dividends on the securities loaned. Gain or loss in the fair value of the securities loaned that may occur during the term of the loan will be for the account of the Foundation. The Foundation has the right under the lending agreement to recover the securities from the borrower on

demand. The principal risks to the Foundation of securities lending are that the yield earned on the collateral may be insufficient to cover the rebate owed to the borrower and that an investment purchased via the collateral reinvestment process may become impaired.

The value of securities on loan at December 31, 2010 and 2009, was \$75,096,606 and \$61,628,667, respectively. The value of collateral received at December 31, 2010 and 2009, was \$77,609,490 and \$63,761,283, respectively.

9. SUBSEQUENT EVENTS

The Foundation evaluated subsequent events through June 15, 2011, the date the financial statements were available to be issued, and determined that no additional disclosures were necessary.

* * * * *