

# **The Broad Foundations**

**Combined Financial Statements**

**December 31, 2007 and 2006**

**Report of Independent Auditors**

To the Trustees of The Eli and Edythe Broad Foundation and  
the Trustees of The Broad Art Foundation

In our opinion, the accompanying combined statements of financial position and the related combined statements of activities and changes in net assets and of cash flows present fairly, in all material respects, the financial position of The Eli and Edythe Broad Foundation and The Broad Art Foundation, which collectively are The Broad Foundations (the "Foundations"), at December 31, 2007 and 2006, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These combined financial statements are the responsibility of the Foundations' management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

February 20, 2008

**The Broad Foundations**  
**Combined Statement of Financial Position**  
**December 31, 2007**  
*(dollars in thousands)*

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	<b>Eli and Edythe Broad Foundation</b>	<b>The Broad Art Foundation</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 267,394	\$ 24,939	\$ 292,333
Interest and dividends receivable	1,537	-	1,537
Contributions receivable	-	34,507	34,507
Investments	1,690,229	109,350	1,799,579
Fixed assets, net	928	2,459	3,387
Art collection	-	232,033	232,033
Program related investment	4,400	-	4,400
Other assets	<u>33</u>	<u>2,735</u>	<u>2,768</u>
Total assets	<u>\$ 1,964,521</u>	<u>\$ 406,023</u>	<u>\$ 2,370,544</u>
<b>Liabilities and Net Assets</b>			
Accounts payable and accrued expenses	\$ 939	\$ 202	\$ 1,141
Deferred federal excise taxes payable	6,261	378	6,639
Grants payable	<u>23,803</u>	<u>150</u>	<u>23,953</u>
Total liabilities	31,003	730	31,733
Net assets			
Unrestricted	<u>1,933,518</u>	<u>405,293</u>	<u>2,338,811</u>
Total liabilities and net assets	<u>\$ 1,964,521</u>	<u>\$ 406,023</u>	<u>\$ 2,370,544</u>

The accompanying notes are an integral part of these combined financial statements.

**The Broad Foundations**  
**Combined Statement of Financial Position**  
**December 31, 2006**  
*(dollars in thousands)*

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	<b>Eli and Edythe Broad Foundation</b>	<b>The Broad Art Foundation</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 69,527	\$ 14,832	\$ 84,359
Interest and dividends receivable	1,447	-	1,447
Contributions receivable	132,364	50,000	182,364
Investments	1,597,705	114,264	1,711,969
Fixed assets, net	815	2,515	3,330
Art collection	-	204,867	204,867
Other assets	<u>2,029</u>	<u>695</u>	<u>2,724</u>
Total assets	<u>\$ 1,803,887</u>	<u>\$ 387,173</u>	<u>\$ 2,191,060</u>
<b>Liabilities and Net Assets</b>			
Accounts payable and accrued expenses	\$ 1,248	\$ 146	\$ 1,394
Deferred federal excise taxes payable	5,109	400	5,509
Grants payable	<u>18,774</u>	<u>280</u>	<u>19,054</u>
Total liabilities	25,131	826	25,957
Net assets			
Unrestricted	<u>1,778,756</u>	<u>386,347</u>	<u>2,165,103</u>
Total liabilities and net assets	<u>\$ 1,803,887</u>	<u>\$ 387,173</u>	<u>\$ 2,191,060</u>

The accompanying notes are an integral part of these combined financial statements.

**The Broad Foundations**  
**Combined Statement of Activities and Changes in Net Assets**  
**Year Ended December 31, 2007**  
*(dollars in thousands)*

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	<b>Eli and Edythe Broad Foundation</b>	<b>The Broad Art Foundation</b>	<b>Related Party Adjustment</b>	<b>Total</b>
<b>Revenues and support</b>				
Contributions	\$ 14,724	\$ 7,000	\$ (7,000)	\$ 14,724
Realized and unrealized gains from investments, net of fees	251,966	13,781	-	265,747
Interest and dividends	<u>32,175</u>	<u>2,180</u>	<u>-</u>	<u>34,355</u>
Total revenues and support	<u>298,865</u>	<u>22,961</u>	<u>(7,000)</u>	<u>314,826</u>
<b>Grants and expenses</b>				
Contributions and grants	127,304	963	(7,000)	121,267
Program related	6,686	2,284	-	8,970
General and administrative	4,934	615	-	5,549
Federal excise taxes	<u>5,179</u>	<u>153</u>	<u>-</u>	<u>5,332</u>
Total grants and expenses	<u>144,103</u>	<u>4,015</u>	<u>(7,000)</u>	<u>141,118</u>
Change in net assets	154,762	18,946	-	173,708
Unrestricted net assets, beginning of year	<u>1,778,756</u>	<u>386,347</u>	<u>-</u>	<u>2,165,103</u>
Unrestricted net assets, end of year	<u>\$ 1,933,518</u>	<u>\$ 405,293</u>	<u>\$ -</u>	<u>\$ 2,338,811</u>

The accompanying notes are an integral part of these combined financial statements.

**The Broad Foundations**  
**Combined Statement of Activities and Changes in Net Assets**  
**Year Ended December 31, 2006**  
*(dollars in thousands)*

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	<b>Eli and Edythe Broad Foundation</b>	<b>The Broad Art Foundation</b>	<b>Total</b>
<b>Revenues and support</b>			
Realized and unrealized gains from investments, net of fees	\$ 196,378	\$ 16,256	\$ 212,634
Interest and dividends	<u>37,406</u>	<u>2,029</u>	<u>39,435</u>
Total revenues and support	<u>233,784</u>	<u>18,285</u>	<u>252,069</u>
<b>Grants and expenses</b>			
Contributions and grants	112,041	1,646	113,687
Program related	5,904	1,699	7,603
General and administrative	4,137	394	4,531
Federal excise taxes	<u>5,883</u>	<u>572</u>	<u>6,455</u>
Total grants and expenses	<u>127,965</u>	<u>4,311</u>	<u>132,276</u>
Change in net assets	105,819	13,974	119,793
Unrestricted net assets, beginning of year	<u>1,672,937</u>	<u>372,373</u>	<u>2,045,310</u>
Unrestricted net assets, end of year	<u>\$ 1,778,756</u>	<u>\$ 386,347</u>	<u>\$ 2,165,103</u>

The accompanying notes are an integral part of these combined financial statements.

**The Broad Foundations**  
**Combined Statement of Cash Flows**  
**Year Ended December 31, 2007**

*(dollars in thousands)*

	<b>Eli and Edythe Broad Foundation</b>	<b>The Broad Art Foundation</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Change in net assets	\$ 154,762	\$ 18,946	\$ 173,708
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities			
Realized and unrealized gains on investments, net of fees	(251,966)	(13,781)	(265,747)
Depreciation	292	154	446
Non-cash contributions received	(147,088)	(15,493)	(162,581)
Changes in assets and liabilities			
Interest and dividends receivable	(90)	-	(90)
Contributions receivable	132,364	15,493	147,857
Program related investment	(4,400)	-	(4,400)
Other assets	1,996	(2,040)	(44)
Accounts payable and accrued expenses	(309)	56	(253)
Deferred federal excise taxes payable	1,152	(22)	1,130
Grants payable	5,029	(130)	4,899
	<u>(108,258)</u>	<u>3,183</u>	<u>(105,075)</u>
Net cash provided by (used in) operating activities			
<b>Cash flows from investing activities</b>			
Purchases of investments	(386,519)	(3,300)	(389,819)
Sale of investments	693,049	37,488	730,537
Acquisition of art	-	(27,166)	(27,166)
Purchase of fixed assets	(405)	(98)	(503)
	<u>306,125</u>	<u>6,924</u>	<u>313,049</u>
Net cash provided by investing activities			
Net increase in cash for the year	197,867	10,107	207,974
Cash and cash equivalents, beginning of year	<u>69,527</u>	<u>14,832</u>	<u>84,359</u>
Cash and cash equivalents, end of year	<u>\$ 267,394</u>	<u>\$ 24,939</u>	<u>\$ 292,333</u>
<b>Supplemental information</b>			
Non-cash transaction:			
Investments contributed	\$ 147,088	\$ 15,493	\$ 162,581
Federal excise taxes paid	\$ 4,027	\$ 175	\$ 4,201

The accompanying notes are an integral part of these combined financial statements.

**The Broad Foundations**  
**Combined Statement of Cash Flows**  
**Year Ended December 31, 2006**

*(dollars in thousands)*

	<b>Eli and Edythe Broad Foundation</b>	<b>The Broad Art Foundation</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Change in net assets	\$ 105,819	\$ 13,974	\$ 119,793
Adjustments to reconcile change in net assets to net cash used in operating activities			
Realized and unrealized gains on investments, net of fees	(196,378)	(16,256)	(212,634)
Depreciation	262	134	396
Gain on exchange of art	-	(275)	(275)
Non-cash contributions received	(137,636)	-	(137,636)
Changes in assets and liabilities			
Interest and dividends receivable	579	-	579
Contributions receivable	137,636	-	137,636
Other assets	(1,556)	(616)	(2,172)
Accounts payable and accrued expenses	584	(11)	573
Deferred federal excise taxes payable	1,387	5	1,392
Grants payable	(681)	125	(556)
Net cash used in operating activities	<u>(89,984)</u>	<u>(2,920)</u>	<u>(92,904)</u>
<b>Cash flows from investing activities</b>			
Purchases of investments	(527,765)	(51,919)	(579,684)
Sale of investments	674,269	70,952	745,221
Acquisition of art	-	(14,868)	(14,868)
Purchase of fixed assets	(210)	(129)	(339)
Net cash provided by investing activities	<u>146,294</u>	<u>4,036</u>	<u>150,330</u>
Net increase in cash for the year	56,310	1,116	57,426
Cash and cash equivalents, beginning of year	<u>13,217</u>	<u>13,716</u>	<u>26,933</u>
Cash and cash equivalents, end of year	<u>\$ 69,527</u>	<u>\$ 14,832</u>	<u>\$ 84,359</u>
<b>Supplemental information</b>			
Non-cash transaction:			
Investments contributed	\$ 137,636	\$ -	\$ 137,636
Federal excise taxes paid	\$ 4,525	\$ 567	\$ 5,092

The accompanying notes are an integral part of these combined financial statements.

# The Broad Foundations

## Notes to Combined Financial Statements

### December 31, 2007 and 2006

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#### 1. **Activities of the Foundations**

The Broad Foundations (the "Foundations") is the collective name of the affiliated organizations: The Eli and Edythe Broad Foundation and The Broad Art Foundation.

The Eli and Edythe Broad Foundation is a California non-profit trust established in 1999. The Foundation provides financial support to foster entrepreneurship for the public good in education, science and the arts.

Effective 2007, The Eli and Edythe L. Broad Foundation (a corporation) transferred its assets to The Broad Foundation (a trust) and was dissolved. There was no exchange of consideration in conjunction with the combination and it was accounted for as a pooling of interests. Subsequent to the combination, The Broad Foundation's name was changed to The Eli and Edythe Broad Foundation.

The Broad Art Foundation is a California non-profit trust founded in 1984 for the purpose of fostering public appreciation of contemporary art by increasing access for audiences worldwide. Through its "lending library" program, the Foundation's collection is available for loan to museums and university galleries.

#### 2. **Summary of Significant Accounting Policies**

##### **Basis of Presentation**

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with the AICPA's Audit and Accounting Guide, *Not-for-Profit Organizations*.

##### **Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Cash and Cash Equivalents**

Cash and cash equivalents consist of short-term, highly liquid investments having original maturities of three months or less. Cash equivalents are carried at cost which approximates fair value.

##### **Contributions Received**

Contributions are recorded as both contributions receivable and revenue when an unconditional promise to give is made or when conditions have been met. If the promise to give is to be paid over a period exceeding one year, it is recorded at the net present value of the future cash receipts, using the applicable Treasury Note rate. An allowance for amounts estimated to be uncollectible has been assessed and is not required at December 31, 2007 and 2006. Donor-restricted gifts, which are received and either spent, or deemed spent, within the same year are reported as unrestricted revenue.

# The Broad Foundations

## Notes to Combined Financial Statements

### December 31, 2007 and 2006

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## 2. Summary of Significant Accounting Policies (Continued)

### Investments

Investments are stated at fair value. Investment transactions are recognized on a trade date basis. Realized gains and losses are calculated based on the first-in, first-out method for both financial statement and tax reporting purposes. Realized gains and losses and unrealized changes in the fair value of investments are reflected in the Statements of Activities and Changes in Net Assets.

The Foundations' investments in publicly traded securities and government bonds are valued using quoted market prices. Investments in mutual fund and hedge fund shares are valued using net asset value per share. Investments in common trust funds are stated at fair value, as determined or provided by the trustee who holds the investment. Hedges and derivatives are recorded at fair market value. Changes in the fair market value are recorded in current period earnings.

The Foundations also invest, as a limited partner, in numerous partnerships that make equity, fixed-income, and real estate investments. Typically, such investments are illiquid and not publicly listed or traded. Their value is determined by the partnerships' general partners, who must follow the valuation guidelines, such as appraisals and comparable company trade data, stipulated in the respective limited partnership agreements. Some of the December 31 valuations of limited partnership investments are based upon the value determined by the partnerships' general partner as of September 30, adjusted for capital contributions and distributions that occurred during the quarter ended December 31. These amounts may differ from actual year-end values, had they been available. The majority of limited partnerships are audited annually by independent certified public accounting firms.

### Fixed Assets

Fixed assets are carried at cost or at the estimated fair market value at the date of receipt if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives used in determining depreciation are:

Building	40 years
Leasehold improvements	Lesser of useful life or remaining lease term
Furniture and fixtures	7 years
Telephone	7 years
Computer equipment	5 years
Vehicles	5 years
Software	3 years

# The Broad Foundations

## Notes to Combined Financial Statements

### December 31, 2007 and 2006

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#### 2. Summary of Significant Accounting Policies (Continued)

##### **Program Related Investments**

Program-related investments primarily represent low or non-interest bearing loans, which facilitate charitable activities supported by the Foundations.

##### **Art Collection**

The Foundations capitalize their art collection. The initial capitalization was at the most recent appraised value as third-party appraisal records were readily available. Subsequent to the initial capitalization, collection items are capitalized at cost for items purchased or fair value for items contributed. The fair market value of the collection as of December 31, 2007 is estimated at \$492,000,000.

##### **Grants Payable**

Unconditional grants are recorded both as grants payable and expense when the commitment to pay is approved. Grants which are conditional upon a future and uncertain event are expensed when the conditions are substantially met. If a grant is to be paid over a period exceeding one year, it is recorded at the net present value of the future cash payments, using the applicable Treasury Note rate.

##### **Unrestricted Net Assets**

Unrestricted net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the respective organization's Trustees or Board of Directors. At December 31, 2007, all net assets of the Foundations were unrestricted.

##### **Allocation of Expenses**

The Statements of Activities and Changes in Net Assets present expenses by functional classification. Certain expenses are allocated between "Program related" and "General and administrative."

**The Broad Foundations**  
**Notes to Combined Financial Statements**  
**December 31, 2007 and 2006**

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**3. Investments**

The cost and fair value of investments consisted of the following at December 31 (dollars in thousands):

	<b>Cost</b>	<b>Fair Value</b>
<b>2007</b>		
Equity securities	\$ 306,924	\$ 435,559
Fixed income funds	2,812	3,103
Derivatives	-	11,209
Partnerships and hedge funds	866,786	1,349,397
Bonds	<u>251</u>	<u>311</u>
	<u>\$ 1,176,773</u>	<u>\$ 1,799,579</u>
<b>2006</b>		
Equity securities	\$ 449,649	\$ 577,358
Fixed income funds	48,807	44,458
Partnerships and hedge funds	682,169	1,089,661
Bonds	<u>460</u>	<u>492</u>
	<u>\$ 1,181,085</u>	<u>\$ 1,711,969</u>

**4. Fixed Assets**

Fixed assets consisted of the following at December 31 (dollars in thousands):

	<b>2007</b>	<b>2006</b>
Construction in process	\$ 199	\$ 130
Land	750	750
Building	1,950	1,950
Leasehold improvements	1,544	1,387
Furniture and fixtures	445	301
Telephone	58	37
Computer equipment	748	664
Vehicles	37	37
Software	<u>207</u>	<u>179</u>
	5,938	5,435
Less accumulated depreciation	<u>(2,551)</u>	<u>(2,105)</u>
Fixed assets, net	<u>\$ 3,387</u>	<u>\$ 3,330</u>

Depreciation expense for the years ended December 31, 2007 and 2006 was approximately \$446,000 and \$396,000, respectively.

**The Broad Foundations**  
**Notes to Combined Financial Statements**  
**December 31, 2007 and 2006**

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**5. Grants Payable**

Unconditional promises to give ("grants payable") are recorded after discounting them to the present value of estimated future cash payments. At December 31, 2007 and 2006, grants payable are due as follows (dollars in thousands):

	<b>2007</b>	<b>2006</b>
Due in one year or less	\$ 12,183	\$ 4,471
Due in one to five years	<u>13,279</u>	<u>15,645</u>
	25,462	20,116
Less discount	<u>(1,509)</u>	<u>(1,062)</u>
	<u>\$ 23,953</u>	<u>\$ 19,054</u>

**6. Federal Excise Tax**

The Foundations are exempt from federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and the California Revenue and Taxation Code Section 23701(d), respectively. The Foundations are subject to a federal excise tax of 2% on "net investment income" and under certain circumstances, may qualify for a 1% excise tax rate. An annual determination is made by the Foundations as to whether a 1% or 2% rate is applicable in each year. The Foundations qualified for the 1% excise tax rate in 2007 and 2006. Additionally, the Foundations are subject to federal tax on unrelated business income. The Foundations' excise tax provision consisted of approximately \$4,180,000 current and approximately \$1,152,000 deferred for the year ended December 31, 2007, and approximately \$5,063,000 current and approximately \$1,392,000 deferred for the year ended December 31, 2006.

**7. Defined Contribution Plan**

Effective January 1, 2001 the Foundations have participated in a multiple employer defined contribution plan ("401(k) Plan") established by The Broad Foundation. The 401(k) Plan includes annual employer contributions up to 12% of employees' compensation, a portion of which vests over a six-year graded vesting period. The Foundations' contributions for the years ended December 31, 2007 and 2006 were approximately \$327,000 and \$335,000, respectively.

## **The Broad Foundations**

### **Notes to Combined Financial Statements**

#### **December 31, 2007 and 2006**

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#### **8. Commitments**

In connection with certain investments, the Foundations have made commitments that may require up to approximately \$229,948,000 of additional investments over the next several years.

The Foundations had \$321,291,000 and \$307,301,000 of approved conditional grants, program related investments and professional services agreements outstanding as of December 31, 2007 and 2006, respectively. These agreements are conditional upon other donee fundraising, compliance with budget and timetable requirements and/or milestone completion.

#### **9. Related-Party Transactions**

The Foundations received contributions from its founder and trustee of \$162,581,000 and \$137,636,000 in the form of appreciated stock during the years ended 2007 and 2006, respectively. \$34,507,000 of the original pledge of \$320,000,000 was outstanding as of December 31, 2007. In 2007, The Eli and Edythe Broad Foundation made a grant of \$7,000,000 to The Broad Art Foundation to support its activities.