

***NICHOLAS ENDOWMENT***

**FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2010**

**WITH INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

**NICHOLAS ENDOWMENT  
TABLE OF CONTENTS  
DECEMBER 31, 2010**

	<u>Page</u>
<b>Independent Accountants' Review Report</b> .....	1
<b>Financial Statements:</b>	
Statement Of Financial Position .....	2
Statement Of Activities And Changes In Net Assets.....	3
Statement Of Cash Flows.....	4
<b>Notes To Financial Statements</b> .....	5

**INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

The Board of Trustees  
Nicholas Endowment

We have reviewed the accompanying statement of financial position of Nicholas Endowment (a nonprofit organization) (the "Endowment") as of December 31, 2010, and the related statements of activities and changes in net assets and cash flows for the year then ended.

A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

*White, Nelson & Co. LLP*

Irvine, CA  
June 28, 2011

**NICHOLAS ENDOWMENT  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2010**

**ASSETS**

Assets:

Cash And Cash Equivalents	\$ 85,134
Investments, At Fair Value	<u>35,553,427</u>
Total Assets	<u><u>\$ 35,638,561</u></u>

**LIABILITIES AND NET ASSETS**

Net Assets:

Unrestricted	<u>35,638,561</u>
Total Net Assets	<u>35,638,561</u>
Total Liabilities And Net Assets	<u><u>\$ 35,638,561</u></u>

**NICHOLAS ENDOWMENT**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2010**

Net Investment Revenues:	
Interest And Dividend Income	\$ 423,162
Operating Income From Alternative Investments	189,401
Net Realized Gains On Sale Of Investments	407,592
Net Unrealized Gains On Investments	3,430,659
Investment Management And Custodian Fees	<u>(92,743)</u>
Total Net Investment Revenues	<u>4,358,071</u>
Expenses:	
Grants Awarded	580,000
General And Administrative	<u>81,533</u>
Total Expenses	<u>661,533</u>
Increase In Net Assets	3,696,538
Net Assets At Beginning Of The Year	<u>31,942,023</u>
Net Assets At End Of The Year	<u><u>\$ 35,638,561</u></u>

See accompanying notes and independent accountants' review report

**NICHOLAS ENDOWMENT  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2010**

Cash Flows From Operating Activities:	
Increase In Net Assets	\$ 3,696,538
Non-Cash Items Included In Change In Net Assets:	
Net Unrealized Gains On Investments	(3,430,659)
Changes In:	
Dividends Receivable	14,049
Accrued Expenses	(21,714)
Payables For Securities With Settlements Pending	(11,700)
Grants Payable	<u>(75,000)</u>
Net Cash Provided By Operating Activities	171,514
Cash Flows From Investing Activities:	
Interest, Dividends, And Income From Alternative Investments	(612,563)
Proceeds From Sale Of Investments	3,326,216
Purchase Of Investments	<u>(8,852,460)</u>
Net Cash Used In Investing Activities	<u>(6,138,807)</u>
Net Decrease In Cash And Cash Equivalents	(5,967,293)
Cash And Cash Equivalents, At Beginning Of The Year	<u>6,052,427</u>
Cash And Cash Equivalents, At End Of The Period	<u><u>\$ 85,134</u></u>

See accompanying notes and independent accountants' review report

**NICHOLAS ENDOWMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies**

- (1) Nature Of Operations - Nicholas Endowment (the “Endowment”) was established in 2002 to provide a perpetual base of funding to supporting organizations and charities. The Endowment awards grants in the areas of science and education, performing and visual arts, and other selected causes.
- (2) Basis Of Presentation – The financial statements of the Endowment have been prepared on the accrual basis of accounting. Contributions are recognized as revenues in the year received. The net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:
  - *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.
  - *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Endowment pursuant to those stipulations or that expire by the passage of time.
  - *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that can never be removed by time or the actions of the Endowment’s executive board.
- (3) Cash And Cash Equivalents - For purposes of reporting cash flows, cash and cash equivalents include petty cash funds, bank checking accounts, money market funds with maturities of three months or less when purchased.
- (4) Income Taxes - The Endowment is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code Section and corresponding state code as a charitable organization whereby only unrelated business income, as identified by Section 509(a)(1) of the code, is subject to income tax. The Endowment currently had no unrelated business income at December 31, 2010. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.
- (5) Use Of Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and gains, and expenses and losses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NICHOLAS ENDOWMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies –  
(Continued)**

- (6) Investments – Investments consist primarily of assets invested in marketable equity and debt securities, commodities, and money-market accounts. The Endowment accounts for investments in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-320 and subsections (formerly SFAS No 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations* [“SFAS 124”]). This standard requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the statement of financial position. Fair value of marketable equity and debt securities is based on quoted market prices. The realized and unrealized gain or loss on investments is reflected in the statement of activities and changes in net assets.

Fair value of investments in stock and other equities include those held in limited partnerships that are invested in a fund of funds and their fair values are recorded at values as determined by the individual fund managers. The ultimate liquidation of these investments is restricted to certain time periods and is generally limited to sale to the fund manager or distributions from the fund. Due to the inherent uncertainty of valuation of nonmarketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed and the differences could be material.

Investments are exposed to various risks such as significant world events, interest rates, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

- (7) Grants – For the year ended December 31, 2010, grants in the amount of \$580,000 were unconditional in nature and were recorded at the time they were approved by the Board of Trustees. Conditional grants are those whose disbursement depends upon the occurrence of the specified condition requirements. There were no conditional grants for the year.
- (8) Recent Accounting Pronouncements – In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, “*Fair Value Measurements And Disclosures (Topic 820) – Improving Disclosures About Fair Value Measurements.*” ASU 2010-06 requires new disclosures regarding transfers in and out of Levels 1 and 2, as well as requires more detailed information in the reconciliation of changes in Level 3 assets. In addition, ASU 2010-06 provides for amended disclosures regarding the level of disaggregation, as well as amended disclosures about inputs and valuation techniques used to measure fair value.

**NICHOLAS ENDOWMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies – (Continued)**

(8) Recent Accounting Pronouncements – (Continued)

This is meant to improve transparency in the disclosures regarding fair value. Most of the provisions of ASU 2010-06 are effective for fiscal years, and for interim periods within that first annual reporting period, beginning after December 15, 2009. The portion of the ASU regarding the additional information required for the reconciliation of Level 3 assets is effective for fiscal years, and for interim periods within that first annual reporting period, beginning after December 15, 2010. The Endowment is currently evaluating the impact of the provisions of ASU 2010-06 on the presentation of its financial statements.

**NOTE B: Risks And Uncertainties** – The Endowment maintains cash balances at a financial institution. At December 31, 2010, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest bearing accounts and unlimited insurance for non-interest bearing accounts. At December 31, 2010, the cash balances on deposit at the institutions in excess of federally insured limits totals approximately \$257,634.

To address market risk of investments, the Endowment maintains a formal investment policy that sets out performance criteria, investment guidelines and requires review of the investment managers’ performances. Investments are managed by multiple investment managers, who have responsibility for investing the funds in various investment alternatives. An investment consultant is also utilized. The Endowment also has custody agreements with selected banks, which process disbursements at the direction of authorized staff and board.

**NOTE C: Investments** – At December 31, 2010, the Endowment’s investments at fair value are as follows:

Alternative Assets	\$ 8,691,019
Domestic Stocks And Bonds	19,382,022
Foreign Stocks	<u>7,480,386</u>
Total Investments	<u>\$ 35,553,427</u>

Some of the alternative investments are invested in a fund of funds that may utilize derivative instruments with off-balance sheet risks. However, as of December 31, 2010, none of the funds were directly invested in any derivative financial instruments.

At December 31, 2010, the Endowment had commitments to contribute approximately \$802,000 in additional capital to the limited partnerships.

**NICHOLAS ENDOWMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE D:** **Fair Value Measurements** – Effective July 1, 2008, the Endowment adopted FASB ASC 820, “*Fair Value Measurements and Disclosures*.” FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurement.

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs in the valuation of an asset as of the measurement date. The three levels are defined as follows:

- Level 1: Quoted prices are available in active markets for identical investments as of the reporting date, without adjustment for identical assets or liabilities.
- Level 2: Pricing inputs, including broker quotes, are generally those other than exchange 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 3: Pricing inputs are unobservable for the investment and includes 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.

The following table summarizes the valuation of the Endowment’s investments by the ASC 820 fair value hierarchy as of December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$18,658,693	\$ -	\$ -	\$ 18,658,693
Convertible Equities	998	-	-	998
Corporate Bonds	8,202,717	-	-	8,202,717
Hedge Funds	-	-	6,809,980	6,809,980
Private Equities	-	-	<u>1,881,039</u>	<u>1,881,039</u>
<b>Total Investments</b>	<u>\$26,862,408</u>	<u>\$ -</u>	<u>\$8,691,019</u>	<u>\$ 35,553,427</u>

**NICHOLAS ENDOWMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE D: Fair Value Measurements – (Continued)**

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Endowment has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category may include changes in fair value that were attributed to both observable (e.g. change in market interest rates) and unobservable (e.g. changes in unobservable long-dated volatilities) inputs. Changes in Level 3 assets measured at fair value for the year ended December 31, 2010 are as follows:

	Beginning Balance January 1, 2010	Realized and Unrealized Gains (Losses)	Purchases, Sales and Settlements	Net Transfers In and/or (Out) of Level 3	Ending Balance December 31, 2010	Change in Unrealized Gains
Hedge Funds	\$ 6,627,884	\$ 182,096	\$ -	\$ -	\$ 6,809,980	\$ 182,096
Private equities	<u>1,389,906</u>	<u>322,268</u>	<u>(168,865)</u>	<u>337,730</u>	<u>1,881,039</u>	<u>247,037</u>
Total	<u>\$ 8,017,790</u>	<u>\$ 504,364</u>	<u>\$ (168,865)</u>	<u>\$ 337,730</u>	<u>\$ 8,691,019</u>	<u>\$ 429,133</u>

Realized and unrealized gains and losses are included in operating income from alternative investments, net realized loss on sale of investments, and net unrealized gains on investments in the statement of activities and changes in net assets. At December 31, 2010, the change in unrealized gains still held at December 31, 2010 of \$429,133, are reflected in net unrealized gains on investments in the statement of activities and changes in net assets.

**NOTE E: Consulting Services –** In June 2008, the Endowment signed an agreement with a management group to receive consulting services. Under the terms of the agreement, the Endowment pays a monthly fee of \$3,200 to the management group for the management of day to day activities and operations as well as provides administrative support of the Trustees. Consulting service fees totaled approximately \$39,000 as of December 31, 2010.

**NOTE F: Related Party Transactions –** The Endowment has and may continue to have trustees who are employed by organizations that are supported by the Endowment. The Endowment has a conflict of interest policy which covers relationships with trustees. The policy requires annual disclosures and discussion of potential conflicts at meetings, so that trustees may continue to serve the Endowment through their professional knowledge and expertise. Total grants given to these organizations totaled \$180,000 for the year ended December 31, 2010.

**NICHOLAS ENDOWMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE G:**     **Subsequent Events** – Subsequent to December 31, 2010, the Endowment was converted from a Type 3 supporting organization to a private foundation. With this conversion the minimum distribution of assets amount will now be based upon an assessment of the endowment value at the end of each year.

Events occurring after December 31, 2010 have been evaluated for possible adjustment to the financial statements or disclosure as of June 28, 2011, which is the date the financial statements were available to be issued.