NICHOLAS ENDOWMENT

DECEMBER 31, 2008 AND 2007

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Nicholas Endowment

Independent Auditors' Report
and Financial Statements

HOOD & STRONG LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

THE BOARD OF TRUSTEES
NICHOLAS ENDOWMENT
Santa Ana, California

We have audited the accompanying statement of financial position of **NICHOLAS ENDOWMENT (the Endowment)** as of December 31, 2008 and 2007, the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Endowment's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nicholas Endowment as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, dated September 26, 2008, on the 2007 financial statements we indicated an emphasis of matter that Merrill Lynch was in the process of being acquired by Bank of America. As of December 31, 2007, the Endowment had investments in Merrill Lynch Structured Notes. We indicated that acquisition may have an impact in the ultimate amount to be realized in the remaining and unredeemed portion of the Merrill Lynch Structured Notes as of September 26, 2008 (which approximated 50% of the amount outstanding at December 31, 2007). During 2008, the Endowment redeemed its investment in the Merrill Lynch Structured Notes at a loss of approximately $362,000.

Hood & Strong LLP

April 17, 2010

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Nicholas Endowment

Statement of Financial Position

December 31,	2008	2007
Assets		
Cash and cash equivalents	$ 56,078	$ 121,590
Receivable for securities with settlements pending	36,985	140,267
Accrued dividends receivable	686	7,265
Property and equipment, net		3,943
Investments, at fair value	29,893,240	37,311,291
Total assets	$ 29,986,989	$ 37,584,356
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 15,479	$ 21,012
Payables for securities with settlements pending	56,149	87,571
Grants payable		175,000
Total liabilities	71,628	283,583
Unrestricted Net Assets	29,915,361	37,300,773
Total liabilities and net assets	$ 29,986,989	$ 37,584,356

The accompanying notes are an integral part of this statement.

Nicholas Endowment

Statement of Activities and Changes in Net Assets

Year Ended December 31,	2008	2007
Revenue:		
Interest and dividend income	$ 476,294	$ 615,449
Operating (loss) income from alternative investments	(747,048)	318,020
Net realized gains on sale of investments	544,568	2,862,171
Realized (losses) gains on sale of investments	(6,972,919)	495,667
Commission recapture		1,455
Less: investment management and custodian fees	(116,314)	(207,638)
	(6,815,419)	4,085,124
Contributions received		26,992
Total revenue	(6,815,419)	4,112,116
Expenses:		
Grants	437,500	782,343
Program expenses	19,625	23,500
General and administrative	112,868	91,091
Total expenses	569,993	896,934
Change in Net Assets	(7,385,412)	3,215,182
Net Assets - Beginning of year	37,300,773	34,085,591
Net Assets - End of year	$ 29,915,361	$ 37,300,773

Year Ended December 31,	2008	2007
Cash Flows from Operating Activities:		
Change in net assets	$ (7,385,412)	$ 3,215,182
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	1,579	1,579
Loss on disposal of property and equipment	2,364	
Realized losses (gains) on sale of investments	6,972,919	(2,862,171)
Unrealized gains on investments	(544,568)	(495,667)
Changes in receivables, prepaid expenses and liabilities - net	(102,094)	1,614,666
Net cash (used) provided by operating activities	(1,055,212)	1,473,589
Cash Flows from Investing Activities:		
Purchase of investments	(19,863,762)	(24,098,369)
Proceeds from sale of investments	20,853,462	22,711,780
Net cash provided (used) by investing activities	989,700	(1,386,589)
Net (Decrease) Increase in Cash and Cash Equivalents	(65,512)	87,000
Cash and Cash Equivalents - Beginning of year	121,590	34,590
Cash and Cash Equivalents - End of year	$ 56,078	$ 121,590

Note 1 - Nature of Organization:

The 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.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

The financial statements of the Endowment have been prepared on the accrual basis of accounting under accounting principles generally accepted in the United States of America.

b. Cash and Cash Equivalents

Cash and cash equivalents include cash and money market funds with maturities of three months or less when purchased. Cash equivalents exclude money market funds which are part of the funds overseen by the various investment managers.

c. Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets which range from three to five years.

d. Investments

Investments in equity securities with readily determined fair values and all debt instruments are reported at fair value based on quoted market prices as of December 31. Both realized and unrealized gains or losses are included in the Statement of Activities and Changes in Net Assets. The sale and purchase of investments is recorded at the date of trade which can result in either a net receivable or net payable on unsettled investment trades at the balance sheet date.

Short-term investments consist of money market and mutual funds held for investment purposes plus the net amount from settlements pending.

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.

e. Grants

Grants in the amount of $437,500 and $782,343 for 2008 and 2007, respectively, 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 years ended December 31, 2008 and 2007. There were no grants payables at December 31, 2008. Grants payable at December 31, 2007 were paid out in 2008.

f. Fair Value of Financial Instruments

The Endowment adopted the Statement of Financial Accounting Standards No. 157 ("FAS 157"), Fair Value Measurements, on January 1, 2008. FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 establishes a framework for measuring fair value that prioritizes the inputs to valuation techniques used to measure fair value.

g. Tax Exempt Status

The Endowment is a supporting organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and related California code sections.

h. 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 amount of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

i. New Accounting Pronouncements

In February 2007, FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115", (effective as of the beginning of an entity's first fiscal year that begins after November 5, 2007). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The Endowment has evaluated FAS 159 and decided that the Endowment will not adopt it.

In July 2006 Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) was issued and establishes standards for the recognition of income taxes for tax positions taken in income tax returns. In December 2008, a FASB Staff Position deferred the effective date for exempt organizations, permitting adoption for years beginning after December 15, 2008. The Endowment has elected to defer the application of FIN 48. The Endowment presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred. Management does not expect that the adoption of FIN 48 will have an effect on its financial statements.

SFAS No. 165, Subsequent Events: In May 2009, the Financial Accounting Standards Board (FASB) issued a statement of Financial Accounting Standards No. 165 "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 is intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009. Management does not anticipate that the adoption of SFAS No. 165 will have a material impact on the Endowment's financial position or results of operations.

SFAS No. 168, The FASB Accounting Standards Codification: The FASB has issued FAS No. 168, The "FASB Accounting Standards Codification" and the Hierarchy of Generally Accepted Accounting Principles. FASB No 168 establishes the FAS Accounting Standards Codification (Codification) as the single source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. FASB No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009.

When effective, the Codification will supersede all existing non-SEC accounting reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. Following SFAS No. 168, the FASB will not issue new standards in the form of statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to: (a) update the Codification; (b) provide background information about the guidance; and (c) provide the bases for conclusions on the change(s) in the Codification.

Note 3 - Description of Net Assets:

Unrestricted net assets are those that are neither temporarily restricted nor permanently restricted by donor-imposed stipulations. There are no temporarily or permanently restricted net assets.

Note 4 - Investments:

At December 31, 2008 and 2007, the Endowment's investments at fair value and cost are as follows:

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 10,806,043	$ 10,806,043	$ 444,284	$ 444,284
Domestic stocks and bonds	3,479,262	5,029,127	13,623,422	9,999,953
Merrill Lynch structured notes			2,990,595	3,600,000
Foreign stocks	1,681,629	2,778,027	2,840,603	2,744,239
Fixed income	5,526,460	5,698,955	5,621,180	5,493,157
Alternative investments including Merrill Lynch structure notes of $3,600,000 in 2007	8,399,846	7,744,121	11,791,207	9,533,623
	$ 29,893,240	$ 32,119,273	$ 37,311,291	$ 31,815,256

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, 2008 and 2007, none of the funds were directly invested in any derivative financial instruments.

The Endowment had commitments to contribute approximately $1,401,000 and $1,066,000 in additional capital to the limited partnerships at December 31, 2008 and 2007, respectively.

Note 5 - Fair Value Measurements:

Effective July 1, 2008, the Endowment adopted Statement No. 157, *Fair Value Measurements*, (FAS 157) which provides a framework for measuring fair value under generally accepted accounting principles. FAS 157 applies to all financial instruments that are being measured and reported on a fair value basis. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also established a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices (unadjusted) inactive markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The table below presents the balances of assets measured at fair value at December 31, 2008 on a recurring basis.

	Total	Level 1	Level 2	Level 3
Cash and Money Market	$ 10,806,043	$ 10,806,043		
Equities	5,142,691	5,142,691		
Convertible Equities	18,200		$ 18,200	
Corporate Bonds	5,526,460		5,526,460	
Hedge Funds	7,175,675			$ 7,175,675
Private Equities	1,224,171			1,224,171
Total assets measured at fair value	$ 29,893,240	$ 15,948,734	$ 5,544,660	$ 8,399,846

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 Foundation 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., changes 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, 2008:

	Beginning Balance January 1, 2008	Realized and Unrealized Gains (Losses)	Purchases, Sales and Settlements	Net Transfers In and/or (Out) of Level 3	Ending Balance December 31, 2008	Change in Unrealized Gains (Losses)
Hedge funds	$ 6,171,214	$ (965,537)	$ 1,969,998	$ -	$ 7,175,675	$ 530,677
Private equities	5,619,993	355,951	(4,751,773)	-	1,224,171	(244,951)
Total	$ 11,791,207	$ (609,586)	$ (2,781,775)	$ -	$ 8,399,846	$ 285,726

Realized and unrealized gains and losses are included in realized and unrealized gain (loss) in the statement of activities. The change in unrealized gains (losses) for the year ended December 31, 2008 for investments still held at December 31, 2008 of $285,726 are reflected in unrealized gain (loss) in the statement of activities.

Note 6 - Consulting Services

In June 2008, the Endowment signed an agreement with The Olin Group to receive consulting services. Under the terms of the agreement, the Endowment pays a monthly fee of $3,200 to The Olin Group for the management of day to day activities and operations as well as provides administrative support of the Trustees. Consulting service fees totaled $16,000 during 2008.

Note 7 - Concentrations of Credit Risk:

The Foundation has identified its financial instruments which are potentially subject to credit risk which consist of cash, money market funds and investments in securities.

To address market risk of investments, the Foundation 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. In addition, concentrations of market and credit risk exist for cash and cash equivalents.

Note 8 - 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 $75,000 and $150,000 for the years ended December 31, 2008 and 2007.

The employer of one of the trustees provided facilities and accounting services for the Endowment at no charge to the Endowment in 2007. No amounts for such contributed services for 2007 have been recorded in the financial statements.