

NICHOLAS ENDOWMENT

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

WITH INDEPENDENT ACCOUNTANTS' REVIEW REPORT

**NICHOLAS ENDOWMENT
TABLE OF CONTENTS
DECEMBER 31, 2011**

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

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Trustees
Nicholas Endowment
Santa Ana, California

We have reviewed the accompanying statement of financial position of Nicholas Endowment (a nonprofit Endowment) (the "Endowment") as of December 31, 2011, 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 Endowment 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 Diehl Evans LLP

Irvine, California
June 8, 2012

**NICHOLAS ENDOWMENT
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011**

ASSETS

Assets:

Cash And Cash Equivalents	\$ 1,134,260
Investments, At Fair Value	<u>32,050,354</u>
Total Assets	<u><u>\$ 33,184,614</u></u>

LIABILITIES AND NET ASSETS

Net Assets:

Unrestricted	<u>33,184,614</u>
Total Net Assets	<u>33,184,614</u>
Total Liabilities And Net Assets	<u><u>\$ 33,184,614</u></u>

NICHOLAS ENDOWMENT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2011

Net Investment Revenues:	
Interest And Dividend Income	\$ 470,737
Operating Income From Alternative Investments	32,749
Net Realized Gains On Sale Of Investments	2,005,487
Net Unrealized Losses On Investments	(3,942,578)
Investment Management And Custodian Fees	<u>(88,891)</u>
Total Net Investment Revenues (Losses)	<u>(1,522,496)</u>
Expenses:	
Grants Awarded	802,500
General And Administrative	<u>128,951</u>
Total Expenses	<u>931,451</u>
Decrease In Net Assets	(2,453,947)
Net Assets At Beginning Of The Year	<u>35,638,561</u>
Net Assets At End Of The Year	<u>\$ 33,184,614</u>

See accompanying notes and independent accountants' review report

**NICHOLAS ENDOWMENT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011**

Cash Flows From Operating Activities:	
Decrease In Net Assets	\$ (2,453,947)
Non-Cash Items Included In Change In Net Assets:	
Net Unrealized Losses On Investments	3,942,578
Net Realized Gains On Investments	<u>(2,005,487)</u>
Net Cash Used In Operating Activities	(516,856)
Cash Flows From Investing Activities:	
Interest, Dividends, And Income From Alternative Investments	(503,486)
Proceeds From Sale Of Investments	14,173,664
Purchase Of Investments	<u>(12,104,196)</u>
Net Cash Provided By Investing Activities	<u>1,565,982</u>
Net Increase In Cash And Cash Equivalents	1,049,126
Cash And Cash Equivalents, At Beginning Of The Year	<u>85,134</u>
Cash And Cash Equivalents, At End Of The Year	<u><u>\$ 1,134,260</u></u>

See accompanying notes and independent accountants' review report

**NICHOLAS ENDOWMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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. Effective January 1, 2011, the Endowment was converted from a Type 3 supporting Endowment to a private foundation. With this conversion the minimum distribution of assets will now be based upon an assessment of the endowment value at the end of each year. The current year was considered a grace year and the minimum distribution of assets assessment will start with the year ending December 31, 2012.
- (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 and highly liquid debt instruments with maturities of three months or less when purchased.
- (4) 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 Endowments* [“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.

NICHOLAS ENDOWMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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

(4) Investments - (Continued)

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.

(5) Grants - For the year ended December 31, 2011, grants in the amount of \$802,500 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.

(6) Income Taxes - The Endowment is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and corresponding state code as a charitable Endowment whereby only unrelated business income, as identified by Section 509(a)(3) of the Code, is subject to income tax. The Endowment currently had no unrelated business income at December 31, 2011. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Endowment accounts for uncertain tax positions in accordance with FASB ASC 740-10. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. The Endowment is required to make subjective assumptions and judgments regarding its income tax exposures. Interpretations and guidance surrounding income tax laws and regulations change over time. As such, changes in the Endowment's subjective assumptions and judgments can materially affect amounts recognized in the statement of financial position and statement of activities and changes in net assets.

NICHOLAS ENDOWMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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

(6) Income Taxes - (Continued)

The Endowment's policy is to recognize interest and/or penalties related to all tax positions in income tax expense. To the extent that accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made. No interest or penalties were accrued as of December 31, 2011. The Endowment's 2008 to 2011 tax years are open to review for federal tax purposes and its 2007 to 2011 tax years are open to review for state income tax purposes.

(7) 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.

(8) Recent Accounting Pronouncements - In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820)". ASU 2011-04 clarifies the FASB's intent about the application of existing fair value measurement and disclosure requirements and changes some principles or requirements for measuring fair value or disclosing information about fair value measurements to coincide with International Financial Reporting Standards (IFRS). ASU 2011-04 is effective for annual periods beginning after December 15, 2011.

NOTE B: Risks And Uncertainties - The Endowment maintains cash balances at a financial institution. At December 31, 2011, accounts at the financial 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, 2011, the cash balances on deposit at the institution in excess of federally insured limits totals approximately \$1,104,000.

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.

**NICHOLAS ENDOWMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE C: **Investments** - At December 31, 2011, the Endowment’s investments measured at fair value are as follows:

Hedge Fund Investments - United States	\$ 1,856,375
Hedge Fund Investments - International	6,117,271
United States Partnerships	2,145,268
United States Domestic Stocks And Bonds	14,411,999
Foreign Stocks	<u>7,519,441</u>
 Total Investments	 <u>\$ 32,050,354</u>

At December 31, 2011, the Endowment had commitments to contribute approximately \$1,294,000 in additional capital to the limited partnerships.

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.

**NICHOLAS ENDOWMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE D: Fair Value Measurements - (Continued)

The following table summarizes the valuation of the Endowment's investments by the ASC 820 fair value hierarchy as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$15,402,878	\$ -	\$ -	\$ 15,402,878
Corporate Bonds	6,528,562	-	-	6,528,562
Hedge Funds	-	-	7,973,646	7,973,646
United States Partnerships	<u>-</u>	<u>-</u>	<u>2,145,268</u>	<u>2,145,268</u>
Total Investments	<u>\$21,931,440</u>	<u>\$ -</u>	<u>\$10,118,914</u>	<u>\$ 32,050,354</u>

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, 2011 are as follows:

	Beginning Balance January 1, 2011	Realized and Unrealized Gains (Losses)	Purchases, Sales and Settlements	Net Transfers In and/or (Out) of Level 3	Ending Balance December 31, 2011	Change in Unrealized Gains (Losses)
Hedge Funds	\$ 6,809,980	\$(790,554)	\$ 2,004,103	\$ (49,883)	\$ 7,973,646	\$ (948,414)
United States Partnerships	<u>1,881,039</u>	<u>309,839</u>	<u>(43,108)</u>	<u>(2,502)</u>	<u>2,145,268</u>	<u>281,382</u>
Total	<u>\$ 8,691,019</u>	<u>\$ (480,715)</u>	<u>\$ 1,960,995</u>	<u>\$ (52,385)</u>	<u>\$10,118,914</u>	<u>\$ (667,032)</u>

Realized and unrealized gains and losses are included in the statement of activities and changes in net assets. At December 31, 2011 the change in unrealized gains and losses still held at December 31, 2011 of \$667,032, are reflected in net unrealized losses on investments in the statement of activities and changes in net assets.

NICHOLAS ENDOWMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE E: **Consulting Services** - The Endowment has an agreement with a management group to receive consulting services. Under the terms of the agreement, the Endowment pays a monthly fee of approximately \$3,300 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 \$44,000 as of December 31, 2011.

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 \$205,000 for the year ended December 31, 2011.

NOTE G: **Subsequent Events** - Events occurring after December 31, 2011 have been evaluated for possible adjustment to the financial statements or disclosure as of June 8, 2012, which is the date the financial statements were available to be issued.