

# M.J. Murdock Charitable Trust

Financial Statements as of and for the  
Years Ended December 31, 2008 and 2007,  
and Independent Accountants' Review Report

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Trustees of  
M.J. Murdock Charitable Trust  
Vancouver, Washington

We have reviewed the accompanying statement of financial position of M.J. Murdock Charitable Trust (the "Trust") as of December 31, 2008, and the related statement of activities and of cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the Trust.

A review consists principally of inquiries of the Trust's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the 2008 financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The financial statements for the year ended December 31, 2007 were audited by us, and we expressed an unqualified opinion on them in our report dated June 10, 2008, but we have not performed any auditing procedures since that date.

*Deloitte & Touche LLP*

June 30, 2009

# M.J. MURDOCK CHARITABLE TRUST

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2008 AND 2007

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	2008	2007
<b>ASSETS</b>		
INVESTMENTS (Note 2):		
Short-term investment funds	\$ 3,583,157	\$ 4,915,693
Marketable securities	232,305,799	464,571,662
Limited liquidity investments	<u>379,956,382</u>	<u>417,750,574</u>
Total investments	615,845,338	887,237,929
CASH	174,117	770,350
PROGRAM-RELATED INVESTMENTS	3,500,000	3,000,000
PREPAID EXPENSES	8,302	1,066
COLLATERAL UNDER SECURITIES LENDING	39,517,892	57,519,855
RECEIVABLES	6,680,516	1,102,787
LEASEHOLD IMPROVEMENTS (Less accumulated amortization of \$897,208 in 2008 and \$888,623 in 2007)	<u>125,497</u>	<u>13,480</u>
TOTAL	<u>\$ 665,851,662</u>	<u>\$ 949,645,467</u>
<b>LIABILITIES AND NET ASSETS</b>		
APPROVED GRANTS PENDING PAYMENT (Including contingent grants of \$16,951,600 in 2008 and \$16,962,700 in 2007)	\$ 43,633,280	\$ 37,089,519
COLLATERAL PAYABLE UNDER SECURITIES LENDING	39,930,874	57,519,855
OTHER LIABILITIES	<u>4,273,282</u>	<u>2,748,068</u>
Total liabilities	87,837,436	97,357,442
UNRESTRICTED NET ASSETS	<u>578,014,226</u>	<u>852,288,025</u>
TOTAL	<u>\$ 665,851,662</u>	<u>\$ 949,645,467</u>

See independent accountants' review report and notes to financial statements

# M.J. MURDOCK CHARITABLE TRUST

## STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CHANGES IN UNRESTRICTED NET ASSETS:		
Investment income:		
Interest	\$ 1,232,056	\$ 1,517,359
Dividends	14,014,175	8,096,892
Limited liquidity investments	7,458,917	6,774,448
Interest income from securities lending transactions	<u>1,095,699</u>	<u>3,500,290</u>
Investment income before net gain on investments	<u>23,800,847</u>	<u>19,888,989</u>
Net gain (loss) on investments:		
Realized	(25,678,516)	83,505,892
Unrealized	<u>(211,708,961)</u>	<u>44,945,803</u>
Net gain (loss) on investments	<u>(237,387,477)</u>	<u>128,451,695</u>
Total investment gain (loss)	<u>(213,586,630)</u>	<u>148,340,684</u>
INVESTMENT EXPENSES:		
Management fees	1,996,142	2,980,965
Limited liquidity investments expense	8,484,367	4,458,488
Federal excise tax	1,067	1,881,771
Interest expense and fees on securities lending transactions	823,706	3,300,339
Prorated administration expenses	<u>1,621,603</u>	<u>1,433,859</u>
Total investment expenses	<u>12,926,885</u>	<u>14,055,422</u>
NET INVESTMENT GAIN (LOSS)	<u>(226,513,515)</u>	<u>134,285,262</u>
GRANTS AND EXPENSES:		
Grants approved	42,367,068	34,618,971
Grant cancelations and refunds	(117,607)	(376,548)
Prorated administration expenses	<u>5,510,823</u>	<u>3,892,856</u>
Total grants and expenses	<u>47,760,284</u>	<u>38,135,279</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(274,273,799)	96,149,983
UNRESTRICTED NET ASSETS — Beginning of year	<u>852,288,025</u>	<u>756,138,042</u>
UNRESTRICTED NET ASSETS — End of year	<u>\$ 578,014,226</u>	<u>\$ 852,288,025</u>

See independent accountants' review report and notes to financial statements

# M.J. MURDOCK CHARITABLE TRUST

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net investment gain (loss)	\$(226,513,515)	\$ 134,285,262
Adjustments to reconcile net investment gain (loss) to net cash provided by investing activities:		
Unrealized gain (loss) on investments	211,708,961	(44,945,803)
Additions to leasehold improvements	(120,602)	(8,035)
Amortization of leasehold improvements	8,585	1,205
Investments:		
Net decrease in short-term investments	1,330,386	10,754,804
Purchases of marketable securities	(145,720,670)	(206,959,827)
Sales of marketable securities	265,315,824	189,781,399
Additions to limited partnership interests	(122,787,104)	(132,505,559)
Distributions from limited partnership interests	61,958,769	82,897,738
Program-related investments	(500,000)	(1,000,000)
Changes in other assets and liabilities — net	(4,060,344)	(629,208)
Net cash provided by investing activities	<u>40,620,290</u>	<u>31,671,976</u>
<b>CASH FLOWS FOR GRANT ACTIVITIES:</b>		
Grant payments	(35,706,807)	(27,673,407)
Payments for grant-related activities	(5,510,823)	(3,892,856)
Grants refunded	1,107	53,548
Net cash used in grant activities	<u>(41,216,523)</u>	<u>(31,512,715)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(596,233)	159,261
CASH — Beginning of year	<u>770,350</u>	<u>611,089</u>
CASH — End of year	<u>\$ 174,117</u>	<u>\$ 770,350</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES — Increase in marketable securities from transfer of limited liquidity investments</b>	<u>\$ 295,488</u>	<u>\$ 372,874</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for federal excise tax	<u>\$ 1,225,525</u>	<u>\$ 2,298,465</u>
Cash paid during the year for interest	<u>\$ 758,230</u>	<u>\$ 4,068,391</u>

See independent accountants' review report and notes to financial statements

# M.J. MURDOCK CHARITABLE TRUST

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(See independent accountant's review report)

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### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations** — The M.J. Murdock Charitable Trust (the "Trust") was created in 1975 by the Will of Melvin J. (Jack) Murdock. The Trust is a private foundation which makes grants to certain qualified not-for-profit institutions, primarily in the Pacific Northwest.

**Investments** — Investments are stated as follows:

- Short-term investment funds — at fair value.
- Marketable securities — at current quoted market prices.
- Limited liquidity investments — Since there is no readily available market for investments in limited partnerships and limited liability companies, such investments are valued at amounts reported to the Trust by the general partners of such entities. The investments of these limited partnerships and limited liability companies, such as venture capital, buyout firms and real estate partnerships, include securities of companies that may not be immediately liquid. Accordingly, their values are based upon guidelines established by the general partners. Management believes this method provides a reasonable estimate of fair value. These values may differ significantly from values that would have been used had a readily available market existed for such investments, and the differences could be material to the net assets of the Trust.

**Investment Transactions** — Investment transactions are recorded as of the trade date. Realized gains and losses on sales of investments are determined on the basis of first-in, first-out cost or carrying value. Receivables due on sales of \$5,196,534 and \$358,428 are included in Receivables as of December 31, 2008 and 2007, respectively.

**Securities Lending** — The Trust engages in securities lending whereby certain securities in its portfolio are loaned to other institutions generally for short periods of time. Collateral equal to between 102% and 105% of the market value of the loaned securities, including any accrued interest, is obtained from the borrower. Throughout the duration of the loan, the loan is marked to market on a daily basis. These transactions are accounted for as secured borrowings, in accordance with Financial Accounting Standards Board (FASB) Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* — a replacement of FASB Statement No. 125.

**Concentration of Risk** — The Trust's investments in financial instruments include U.S. government and agency securities, corporate bonds, common stock, mutual funds, limited partnerships, and limited liability companies. These financial instruments may subject the Trust to concentrations of risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation; the market value of securities are dependent on the ability of the issuer to honor its contractual commitments; and the investments are subject to changes in market values.

**Federal Excise Tax** — The Trust is exempt from federal income tax under provisions of the Internal Revenue Code. However, the Trust is subject to federal excise tax based upon defined “net investment income.” The applicable tax rate (1% or 2%) is based upon, in part, the current-year level of grant payments and grant-related expenses.

**Grants and Expenses** — Grants, including contingent grants, are recorded when approved by the Trustees. Administration expenses are prorated between the investment program and the grants program based upon estimates of total personnel time expended between the programs (Note 5).

**Leasehold Improvements** — Leasehold improvements are carried at amortized cost and are amortized using the straight-line method over the shorter of their economic life or the life of the related lease.

**Furniture and Equipment** — Costs of furniture and equipment, which are not significant, are expensed as incurred.

**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 that affect the reported amounts of 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.

**New Accounting Pronouncements** — On April 9, 2009, the FASB issued FASB Staff Position (FSP) Financial Accounting Standard (FAS) 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which is intended to provide greater clarity to investors about the credit and noncredit component of an Other than temporary impairment (OTTI) event and to more effectively communicate when an OTTI event has occurred. This statement applies to debt securities and requires that the total OTTI be presented in the statement of activities with an offset for the amount of impairment that is recognized in other comprehensive income, which is the noncredit component. Noncredit component losses are to be recorded in other comprehensive income if an investor can assess that (a) it does not have the intent to sell or (b) it is not more likely than not that it will have to sell the security prior to its anticipated recovery. This statement is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. This statement will be applied prospectively with a cumulative effect transition adjustment as of the beginning of the period in which it is adopted. An entity early adopting this FSP must also early adopt FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. As the Trust carries all investments at fair value, we do not expect that the adoption of FSP FAS 115-2 and FAS 124-2 will have a material effect on the financial statements.

On April 9, 2009, FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* which provides additional guidance on determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurements under FASB Statement No. 157, *Fair Value Measurements*. This statement will be applied prospectively and retrospective application will not be permitted. This statement will be effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting this FSP must also early adopt FSP FAS 115-2 and FAS 124-2. The Trust is current evaluating the impacts of adopting FSP FAS 157-4.

On June 12, 2009, FASB issued FASB Statement No. 166, *Accounting for Transfers of Financial Asset — an amendment of FASB Statement No. 140* which removes the scope exception for application of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities — an interpretation of ARB No. 51*, to qualifying special purposes entities and the permission of sale accounting for certain mortgage securitizations. The statement will be effective as of the beginning of the Trust's first annual reporting period that begins after November 15, 2009. The Trust has not yet evaluated the impact the adoption of this statement will have on its financial statements.

## 2. INVESTMENTS

	December 31, 2008		December 31, 2007	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Short-term investment funds	\$ 3,585,143	\$ 3,583,157	\$ 4,915,529	\$ 4,915,693
Marketable securities:				
U.S. government obligations	30,669,220	50,903,788	31,298,964	39,591,468
Preferred stock	200,573	184,073	209,905	309,317
Common stock	231,206,569	173,822,218	327,853,102	394,964,010
Corporate bonds	8,465,374	7,395,720	30,774,919	29,706,867
Total	<u>270,541,736</u>	<u>232,305,799</u>	<u>390,136,890</u>	<u>464,571,662</u>
Limited liquidity investments	<u>374,762,564</u>	<u>379,956,382</u>	<u>313,934,229</u>	<u>417,750,574</u>
Total investments	<u>\$ 648,889,443</u>	<u>\$ 615,845,338</u>	<u>\$ 708,986,648</u>	<u>\$ 887,237,929</u>

Investments are recorded at fair value in accordance with the provisions of FASB Statement No. 157. In September 2006, FASB issued FASB Statement No. 157, which is effective for fiscal years beginning after November 15, 2007. FASB Statement No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are as follows:

*Level 1* — Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Trust has the ability to access at the measurement date.

*Level 2* — Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

*Level 3* — Inputs that are unobservable.

For investments in limited partnerships and limited liability companies, fair value is based upon amounts reported to the Trust by the general partners of such entities. There is generally no active market for such interests, although, in some situations, a transaction may occur in the "secondary market" where an investor purchases an existing interest. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and all have been classified within Level 3 due to the lack of observable inputs.

The investments carried in the Statement of Financial Position as of December 31, 2008, are as follows:

<b>Estimated Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments	<u>\$214,231,784</u>	<u>\$21,657,172</u>	<u>\$379,956,382</u>	<u>\$615,845,338</u>

The following table includes a rollforward of the amounts for the year ended December 31, 2008 for investments classified within Level 3. The classification of an investment within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement. However, Level 3 financial instruments may include, in addition to the use of unobservable inputs, observable inputs (that is, inputs that are actively quoted and can be validated to market sources); accordingly, the gains and losses in the table below may include changes in fair value due in part to changes in observable inputs that are part of the valuation methodology.

Balance — January 1, 2008	\$ 417,750,574
Net payments, purchases and sales	48,812,559
Realized gains	13,422,824
Unrealized losses	<u>(100,029,575)</u>
Balance — December 31, 2008	<u>\$ 379,956,382</u>

### 3. RETIREMENT PLAN

The Trust has a defined contribution plan covering all permanent employees. The Trust contributes between 11% and 15% of an employee's salary to the Plan. Supplemental contributions may be made by the Trust at the discretion of the Trustees. Contributions by the Trust amounted to \$297,701 and \$268,046 for 2008 and 2007, respectively.

### 4. COMMITMENTS

The Trust's operating lease for office space expires in August 2016 and requires monthly payments adjusted on an annual basis for inflation until the end of the lease. As of December 31, 2008, the monthly rent is \$27,588. Rent expense for office space and related parking was \$347,448 and \$332,619 for 2008 and 2007, respectively.

At December 31, 2008, the Trust has unfunded commitments of approximately \$223 million in connection with certain of its investments.

**5. PRORATION OF FUNCTIONAL EXPENSES**

The following functional expenses of the Trust are prorated as follows:

	<b>2008</b>	<b>2007</b>
Administration expenses:		
Payroll, payroll taxes, and employee benefits	\$3,112,730	\$2,722,291
Postretirement medical expense	1,446,836	398,276
Travel, meals, and lodging	922,816	827,392
Professional fees	543,639	422,476
Rent	347,448	332,619
Trustee fees	225,000	225,000
Equipment, furnishings, and maintenance	187,269	72,384
Software and supplies expense	100,360	78,811
Dues, subscriptions, registrations	99,409	84,165
Other expense	66,080	31,897
Telephone	29,575	27,486
Insurance	24,602	24,593
Employee recruitment and moving	9,591	33,689
Amortization of leasehold improvements	8,585	1,205
Printing and publishing	8,486	44,431
	<u>\$7,132,426</u>	<u>\$5,326,715</u>
Total administration expenses		
Prorated as follows:		
Investment administration	\$1,621,603	\$1,433,859
Grants administration	<u>5,510,823</u>	<u>3,892,856</u>
Total	<u>\$7,132,426</u>	<u>\$5,326,715</u>

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