



**ROCKEFELLER BROTHERS FUND, INC.**  
Financial Statements and Supplemental Schedule  
December 31, 2012 and 2011  
(With Independent Auditors' Report Thereon)



KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

## **Independent Auditors' Report**

The Board of Trustees  
Rockefeller Brothers Fund, Inc.:

We have audited the accompanying financial statements of Rockefeller Brothers Fund, Inc. (the Fund), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Rockefeller Brothers Fund, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

July 23, 2013

**ROCKEFELLER BROTHERS FUND, INC.**

Statements of Financial Position

December 31, 2012 and 2011

<b>Assets</b>	<b>Principal Fund</b>	<b>Pocantico Fund</b>	<b>Pocantico II Fund</b>	<b>2012 RBF Funds</b>	<b>2011 RBF Funds</b>
Cash and cash equivalents	\$ 1,406,584	500	—	1,407,084	1,124,814
Accounts receivable	1,013,249	87,533	—	1,100,782	982,001
Contributions receivable	1,634,380	—	17,551,914	19,186,294	15,040,972
Investments	699,377,763	66,844,779	5,788,228	772,010,770	726,787,879
Program-related investments – real estate	510,000	—	—	510,000	510,000
Prepaid expenses	18,000	—	—	18,000	5,989
Fixed assets, net	5,672,598	1,051,415	—	6,724,013	7,352,927
Interfund	2,275,187	(2,908,125)	632,938	—	—
Total assets	\$ 711,907,761	65,076,102	23,973,080	800,956,943	751,804,582
<b>Liabilities and Net Assets</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 7,883,541	1,816,416	379	9,700,336	9,377,723
Grants payable	8,299,428	—	—	8,299,428	6,990,106
Deferred taxes payable	3,893,241	359,585	30,999	4,283,825	2,709,005
Total liabilities	20,076,210	2,176,001	31,378	22,283,589	19,076,834
Commitments					
Net assets:					
Unrestricted	689,421,811	62,900,101	—	752,321,912	712,363,499
Temporarily restricted	2,409,740	—	14,037,335	16,447,075	12,469,249
Permanently restricted	—	—	9,904,367	9,904,367	7,895,000
Total net assets	691,831,551	62,900,101	23,941,702	778,673,354	732,727,748
Total liabilities and net assets	\$ 711,907,761	65,076,102	23,973,080	800,956,943	751,804,582

See accompanying notes to financial statements.

**ROCKEFELLER BROTHERS FUND, INC.**

Statements of Activities

Years ended December 31, 2012 and 2011

	<u>Principal Fund</u>	<u>Pocantico Fund</u>	<u>Pocantico II Fund</u>	<u>2012 RBF Funds</u>	<u>2011 RBF Funds</u>
Changes in unrestricted net assets:					
Operating revenues:					
Investment income	\$ 342,520	31,435	—	373,955	725,091
Other income	1,158,630	—	—	1,158,630	1,143,597
Contributions	1,007,702	—	—	1,007,702	7,350
Net assets released from restrictions	<u>2,477,704</u>	<u>—</u>	<u>40,274</u>	<u>2,517,978</u>	<u>1,601,453</u>
	<u>4,986,556</u>	<u>31,435</u>	<u>40,274</u>	<u>5,058,265</u>	<u>3,477,491</u>
Operating expenses:					
Direct charitable activities	1,087,283	3,323,406	—	4,410,689	5,627,763
Program and grant management	35,669,382	—	—	35,669,382	33,439,731
Investment management	2,611,248	199,974	19,272	2,830,494	2,944,979
General management	6,074,673	396,623	—	6,471,296	6,623,701
Federal excise and other taxes	<u>2,262,441</u>	<u>280,512</u>	<u>21,002</u>	<u>2,563,955</u>	<u>2,289,906</u>
	<u>47,705,027</u>	<u>4,200,515</u>	<u>40,274</u>	<u>51,945,816</u>	<u>50,926,080</u>
Deficiency of operating revenues over operating expenses	<u>(42,718,471)</u>	<u>(4,169,080)</u>	<u>—</u>	<u>(46,887,551)</u>	<u>(47,448,589)</u>
Nonoperating activities:					
Net realized and unrealized gain on investments	78,876,387	7,243,217	—	86,119,604	6,829,223
Amounts not yet recognized as a component of net periodic benefit cost	<u>530,747</u>	<u>195,613</u>	<u>—</u>	<u>726,360</u>	<u>(1,458,800)</u>
	<u>79,407,134</u>	<u>7,438,830</u>	<u>—</u>	<u>86,845,964</u>	<u>5,370,423</u>
Increase (decrease) in unrestricted net assets	<u>36,688,663</u>	<u>3,269,750</u>	<u>—</u>	<u>39,958,413</u>	<u>(42,078,166)</u>
Changes in temporarily restricted net assets:					
Investment income	—	—	3,166	3,166	4,936
Contributions	2,852,704	—	2,910,400	5,763,104	3,305,000
Net realized and unrealized gain on investments	—	—	729,534	729,534	46,754
Net assets released from restrictions	<u>(2,477,704)</u>	<u>—</u>	<u>(40,274)</u>	<u>(2,517,978)</u>	<u>(1,601,453)</u>
Increase in temporarily restricted net assets	<u>375,000</u>	<u>—</u>	<u>3,602,826</u>	<u>3,977,826</u>	<u>1,755,237</u>
Changes in permanently restricted net assets:					
Contributions	<u>—</u>	<u>—</u>	<u>2,009,367</u>	<u>2,009,367</u>	<u>—</u>
Increase in permanently restricted net assets	<u>—</u>	<u>—</u>	<u>2,009,367</u>	<u>2,009,367</u>	<u>—</u>
Increase (decrease) in net assets	37,063,663	3,269,750	5,612,193	45,945,606	(40,322,929)
Net assets:					
Beginning of year	<u>654,767,888</u>	<u>59,630,351</u>	<u>18,329,509</u>	<u>732,727,748</u>	<u>773,050,677</u>
End of year	<u>\$ 691,831,551</u>	<u>62,900,101</u>	<u>23,941,702</u>	<u>778,673,354</u>	<u>732,727,748</u>

See accompanying notes to financial statements.

**ROCKEFELLER BROTHERS FUND, INC.**

Statements of Cash Flows

Years ended December 31, 2012 and 2011

	<b>2012</b>	<b>2011</b>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 45,945,606	(40,322,929)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Net realized and unrealized gain on investments	(86,849,138)	(6,875,977)
Amount not yet recognized as a component of net periodic benefit cost	(726,360)	1,458,800
Depreciation and amortization	1,084,290	2,506,926
Changes in operating assets and liabilities:		
Accounts receivable	(118,781)	658,775
Contributions receivable	(4,145,322)	(1,501,100)
Prepaid expenses	(12,011)	8,483
Accounts payable and accrued liabilities	1,048,973	235,149
Grants payable	1,309,322	(359,271)
Deferred taxes payable	1,574,820	1,414,798
Net cash used in operating activities	(40,888,601)	(42,776,346)
Cash flows from investing activities:		
Proceeds from sales of investments	235,986,762	245,777,952
Purchases of investments	(194,360,515)	(203,565,255)
Purchases of fixed assets	(455,376)	(367,707)
Net cash provided by investing activities	41,170,871	41,844,990
Net increase (decrease) in cash and cash equivalents	282,270	(931,356)
Cash and cash equivalents at beginning of year	1,124,814	2,056,170
Cash and cash equivalents at end of year	\$ 1,407,084	1,124,814
Supplemental disclosure of cash flow information:		
Cash paid for taxes	\$ 1,158,241	77,689

See accompanying notes to financial statements.

## ROCKEFELLER BROTHERS FUND, INC.

Notes to Financial Statements

December 31, 2012 and 2011

### (1) Organizations and Purpose

Rockefeller Brothers Fund, Inc. (the Fund) is a not-for-profit, charitable corporation existing under the New York State not-for-profit corporation law and is classified as a private foundation as defined in the Internal Revenue Code (the Code). The Fund is dedicated to advancing social change that contributes to a more just, sustainable, and peaceful world. The Fund's grantmaking is organized around three themes: Democratic Practice, Peacebuilding, and Sustainable Development, and the Fund pursues these interests in a variety of geographic contexts, with specific focus in the areas of New York City, Southern China, and Western Balkans.

The board of trustees has established the following special-purpose funds. Funding of these special-purpose funds has come from transfers from the Principal Fund, as well as donor contributions.

**Pocantico Fund** – For the preservation, maintenance, and operation of the Pocantico Historic Area at Pocantico Hills, New York, which includes the Pocantico Center, a venue for conferences and meetings on critical issues related to the Fund's mission, and a community resource offering public access through a visitation program, lectures, and cultural events, as well as support to artists and art organizations in the greater New York City area.

**Pocantico II Fund** – For the perpetual maintenance of the Playhouse parcel at the Pocantico Historic Area when ownership of that parcel passes to a charitable organization.

### (2) Summary of Significant Accounting Policies

The financial statements of the Fund have been prepared on the accrual basis. The significant accounting policies followed are described below:

#### (a) *Principles of Combination*

The statements of financial position and statements of activities separately break out the special-purpose funds. All significant interfund and interorganizational balances and transactions are eliminated in combination.

The Fund considers net realized and unrealized gains and losses on investments, amounts not yet recognized as a component of net periodic benefit cost, and other nonrecurring activities to be nonoperating activities.

#### (b) *Basis of Presentation*

Net assets and revenues, gains, losses, and other support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Fund and changes therein are classified and reported as follows:

Unrestricted net assets represent resources over which the board of trustees has full discretion with respect to use.

Temporarily restricted net assets represent expendable resources that have been time or purpose restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to

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unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets represent contributions and other gifts that require that the corpus be maintained intact and that only the income be used as designated by the donor. Such income is reflected in the statements of activities as temporarily restricted until appropriated for expenditure.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are recorded as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

### (c) *Fair Value Measurement*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Fund has established a fair value hierarchy, which uses the following three levels of inputs to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category also includes alternative investments that are redeemable at or near December 31, 2012.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. This category also includes alternative investments that are not redeemable at or near December 31, 2012.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the Fund's underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the Fund's interest therein, its classification in Level 2 or 3 is based on the Fund's ability to redeem its interest at or near December 31. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire



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holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in the amounts disclosed.

**(d) Investments**

Investments in marketable securities are carried at quoted market prices. Unrealized gains or losses are determined using quoted market prices at the respective balance sheet dates. Security costs are determined on a first-in, first-out basis. Investments are recorded on a trade-date basis.

The Fund follows the provisions of Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12), to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. ASU 2009-12 allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent, as provided by the investment managers.

Investments in alternative investments that are not readily marketable are reported in the financial statements based upon the underlying net asset value (or partner's capital) of each investment, which is estimated at fair value by the fund managers or general partners. The Fund reviews and evaluates the values provided by the fund managers and general partners, and agrees with the valuation methods and assumptions used in determining the fair value of the underlying net assets (or partner's capital).

Investments of the Principal Fund, Pocantico Fund, and Pocantico II Fund are pooled; interest and dividend income and realized and unrealized gains or losses are allocated to each fund using the unitized investment method.

**(e) Grants Payable**

Grants are recorded at the time of approval by the trustees and notification to the recipient (note 8).

**(f) Tax Status**

The Fund is exempt from federal income tax under Section 501(c)(3) of the Code and has been classified as a "private foundation." Provision has been made for the federal excise tax on investment income.

The Fund follows the provisions of Accounting Standards Codification (ASC) Subtopic 740-10, *Accounting for Income Taxes*, which addresses the accounting for uncertainties in income taxes recognized in an organization's financial statements and prescribes a threshold or more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. ASC Subtopic 740-10 also provides related guidance on measurement, classification, interest and penalties, and disclosures. The Fund has concluded that there were no uncertainties to disclose.

**(g) Fixed Assets**

The Fund capitalizes fixed assets, which include leasehold improvements, office equipment, and computer equipment and software. Depreciation and amortization of fixed assets are provided over

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the following estimated useful service lives: leasehold improvements—shorter of useful life or life of lease; office equipment—seven years; computer equipment—four years; and computer software—three years. Fixed assets are presented net of accumulated depreciation and amortization of approximately \$26,800,000 and \$25,700,000 at December 31, 2012 and 2011, respectively.

**(h) Contributions**

Contributions, including unconditional promises to give, are recognized in the period received and are considered to be available for unrestricted use unless specifically restricted by the donor.

**(i) Cash and Cash Equivalents**

The Fund considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents, except for those short-term investments managed by the investment managers as part of its long-term investment strategy.

**(j) Functional Expenses**

The Fund reports expenses on a functional basis, with all expenses charged either to a particular program or supporting service. Direct charitable activities and program and grant management comprise the Fund's program-related expenses and investment management and general management comprise the supporting activity expenses. Direct charitable activities include technical assistance provided to other charitable organizations, service of Fund staff on boards and committees of such organizations, and the costs of certain program-related projects undertaken directly by the Fund rather than through grants, including stewardship of the Pocantico Historic Area and conference activity at the Pocantico Conference Center. Overhead expenses, including occupancy, telephone, and insurance, are allocated to functional areas based upon space used or actual usage, if specifically identifiable. The allocation of salary and related expenses for management and supervision of program service functions is made by management based on the estimated time spent by staff in the various program service functions.

**(k) Use of Estimates**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles 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.

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Notes to Financial Statements

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**(3) Investments**

The following tables present the Fund's fair value hierarchy for those assets and liabilities measured at fair value as of December 31, 2012 and 2011. At December 31, 2012 and 2011, Level 3 assets comprised approximately 36% and 45%, respectively, of the Fund's total investment portfolio fair value.

	<b>December 31, 2012</b>			
	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments:				
Fixed income hedge funds (a)	\$ 41,962,327	—	16,251,281	25,711,046
Equity long/short hedge funds (b)	284,590,880	—	283,362,086	1,228,794
Multistrategy hedge funds (c)	128,008,171	—	119,892,826	8,115,345
Private equity funds (d)	228,726,591	—	—	228,726,591
Real estate (e)	16,945,689	—	—	16,945,689
U.S. Treasuries	16,219,807	16,114,274	105,533	—
Futures	58,811	58,811	—	—
Cash and cash equivalents	55,498,494	55,498,494	—	—
	<u>\$ 772,010,770</u>	<u>71,671,579</u>	<u>419,611,726</u>	<u>280,727,465</u>

	<b>December 31, 2012</b>			
	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments:				
Fixed income hedge funds (a)	\$ 40,899,741	—	15,113,950	25,785,791
Equity long/short hedge funds (b)	269,952,130	—	239,695,827	30,256,303
Multistrategy hedge funds (c)	113,536,720	—	103,618,426	9,918,294
Private equity funds (d)	244,975,219	—	—	244,975,219
Real estate (e)	15,321,285	—	—	15,321,285
U.S. Treasuries	15,474,712	15,474,712	—	—
Cash and cash equivalents	26,628,072	26,628,072	—	—
	<u>\$ 726,787,879</u>	<u>42,102,784</u>	<u>358,428,203</u>	<u>326,256,892</u>

- (a) This class includes hedge funds that invest in fixed income and currency markets.
- (b) This class includes hedge funds that invest in both long and short positions in primarily U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position.
- (c) This class invests in multiple strategies to diversify risks and reduce volatility. Investments include U.S. common stocks, credit, arbitrage, and event-driven markets.

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- (d) This class includes private equity funds that invest primarily in private equity markets. At December 31, 2012 and 2011, there were \$95,800,000 and \$93,000,000, respectively, of unfunded commitments in relation to these funds.
- (e) This class includes private equity funds that invest primarily in commercial real estate.

In 2011, there was a transfer from Level 3 to Level 2 as a result of the expiration of certain lockup provisions. The Fund had no significant transfers between Level 1, Level 2, and Level 3 for the year ended December 31, 2012.

The redeemable alternative investment funds included in the Fund's investment portfolio at December 31, 2012 are redeemable based on the following terms and conditions:

Daily, with no notice	\$ 16,219,807
Daily, with 10 days notice	25,032,661
Monthly, with 100 days notice	210,142,072
Quarterly, with 60 days notice	13,427,064
Quarterly, with 90 days notice	119,892,826
Quarterly, with 120 days notice	51,011,570
Annually, with 180 days notice	30,634,066
Redemption every 2 years, with 60 days notice	58,902
Redemption every 2 years, with 100 days notice	4,754,005
Redemption of 1/3 annually, with 65 days notice	8,115,345
Redemption of 1/3 annually, with 90 days notice	25,711,046
	<u>\$ 504,999,364</u>

The nonredeemable alternative investment funds included in the Fund's investment portfolio at December 31, 2012 have the following estimated remaining lives:

2013 – 2016	\$ 109,603,888
2017 – 2020	1,959,600
2021 – 2033	98,346,839
	<u>\$ 209,910,327</u>

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The following table presents reconciliations for all Level 3 assets measured at fair value for the periods January 1, 2012 to December 31, 2012 and January 1, 2011 to December 31, 2011:

	Level 3 assets					Total
	Fixed income hedge funds	Equity long/short hedge funds	Multistrategy hedge funds	Private equity funds	Real estate	
Financial assets:						
Fair value at December 31, 2010 \$	21,967,402	40,153,185	16,273,692	270,657,594	16,336,574	365,388,447
Realized and unrealized gains and losses, net	3,818,389	1,530,294	(1,138,621)	19,535,780	(244,247)	23,501,595
Purchases	—	—	764,100	47,099,505	302,594	48,166,199
Settlements	—	—	(5,980,877)	(92,317,660)	(1,073,636)	(99,372,173)
Transfer to Level 2	—	(11,427,176)	—	—	—	(11,427,176)
Fair value at December 31, 2011	25,785,791	30,256,303	9,918,294	244,975,219	15,321,285	326,256,892
Realized and unrealized gains and losses, net	(74,745)	4,906,124	329,827	16,177,882	1,531,125	22,870,213
Purchases	—	—	276,182	58,556,951	932,313	59,765,446
Settlements	—	(33,933,633)	(2,408,958)	(90,983,461)	(839,034)	(128,165,086)
Fair value at December 31, 2012 \$	<u>25,711,046</u>	<u>1,228,794</u>	<u>8,115,345</u>	<u>228,726,591</u>	<u>16,945,689</u>	<u>280,727,465</u>

As a result of its investing strategies, the Fund is a party to a variety of financial instruments. These financial instruments may include fixed income, foreign currency futures and options contracts, foreign currency forwards, and interest rate cap and floor contracts. Much of the Fund's off-balance-sheet exposure represents strategies that are designed to reduce the interest rate and market risk inherent in portions of the Fund's investment program. Changes in the market values of these financial instruments are recognized currently in the statements of activities.

Financial instruments such as those described above involve, to varying degrees, elements of market risk and credit risk in excess of the amounts recorded on the statements of financial position. Market risk represents the potential loss the Fund faces due to the decrease in the value of financial instruments. Credit risk represents the maximum potential loss the Fund faces due to possible nonperformance by obligors and counterparties of the terms of their contracts.

**(4) Endowment Funds**

The Fund has a board-designated endowment fund and permanently restricted funds.

The board of trustees of the Fund has established special-purpose funds (note 1), which constitute the Fund's board-designated endowment. Of these special-purpose funds, the net assets of the Principal Fund, excluding \$2,409,740 and \$2,034,740, respectively, in temporarily restricted net assets, and Pocantico Fund constitute board-designated funds, which amounted to \$752,321,912 and \$712,363,499 in 2012 and 2011, respectively. The Pocantico II Fund, which was established in 1999 through a pledge by one donor in the amount of \$8 million, for purposes of perpetual maintenance of the Playhouse Parcel at the Pocantico Historic Area, includes both permanently restricted and temporarily restricted endowment funds. The permanently restricted portion reflects matching grants of Rockefeller family members to the original pledge and includes net assets of \$9,904,367 and \$7,895,000, respectively, in 2012 and 2011. The

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temporarily restricted portion reflects the original pledge, as well as income and appreciation earned on both the permanently restricted and temporarily restricted portions, and includes net assets of \$14,037,335 and \$10,434,509 in 2012 and 2011, respectively.

The Fund sets its annual spending policy by considering the Fund's long-term financial objectives, determining a rate of annual spending that would align with those long-term objectives, and choosing a formula that could be used consistently over a period of years to set the annual spending amount. Each year, the board of trustees establishes an annual budget using a spending model derived from a three-year average market value base, and considering the expected annual payout requirements as mandated by federal regulations and monitoring the impact of actual market trends during the year to make adjustments to spending as necessary.

The board of trustees of the Fund has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as allowing the Fund to appropriate for expenditure or accumulate so much of an endowment fund as the Fund determines is prudent for the uses, benefits, purposes, and duration under which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the board of trustees. The Fund has classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by NYPMIFA.

The Fund had the following endowment-related activities for the years ended December 31, 2012 and 2011:

	<b>Board- designated endowment funds</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets at December 31, 2010	\$ 754,441,665	10,414,012	7,895,000	772,750,677
Investment return:				
Net investment income	725,091	4,936	—	730,027
Net appreciation	6,829,223	46,754	—	6,875,977
Contributions to endowment	7,350	—	—	7,350
Other income	1,143,597	—	—	1,143,597
Amounts appropriated for expenditure	<u>(50,783,427)</u>	<u>(31,193)</u>	<u>—</u>	<u>(50,814,620)</u>
Endowment net assets at December 31, 2011	712,363,499	10,434,509	7,895,000	730,693,008

**ROCKEFELLER BROTHERS FUND, INC.**

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	<b>Board- designated endowment funds</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Investment return:				
Net investment income	\$ 373,955	3,166	—	377,121
Net appreciation	86,119,604	729,534	—	86,849,138
Contributions to endowment	1,007,702	2,910,400	2,009,367	5,927,469
Other income	1,158,630	—	—	1,158,630
Amounts appropriated for expenditure	<u>(48,701,478)</u>	<u>(40,274)</u>	<u>—</u>	<u>(48,741,752)</u>
Endowment net assets at December 31, 2012	<u>\$ 752,321,912</u>	<u>14,037,335</u>	<u>9,904,367</u>	<u>776,263,614</u>

**(5) Program-Related Investments**

The Fund's program-related investments have limited or no marketability, and include real estate that has been leased rent-free to a not-for-profit organization under the terms of an agreement, which expires in the year 2056. These investments are considered to be Level 3 assets under the fair value hierarchy at December 31, 2012 and 2011.

**(6) Pension Plan**

The Fund participates in the Retirement Income Plan for Employees of Rockefeller Brothers Fund, Inc., et al. (the Plan), a noncontributory defined-benefit plan covering substantially all of its employees. Effective December 31, 2003, the Plan was frozen.

The Fund recognizes the funded status of its defined-benefit pension and other postretirement plans as a liability and recognizes the changes in that funded status in the year in which the changes occur through a separate line within the change in unrestricted net assets, apart from expenses, to the extent those changes are not included in the net periodic cost. The funded status reported on the statements of financial position was measured as the difference between the fair value of plan assets and the benefit obligations as of December 31, 2012 and 2011.

The following tables set forth the Plan's funded status and amounts recognized in the financial statements at December 31, 2012 and 2011 (accounts payable and accrued liabilities):

	<u>2012</u>	<u>2011</u>
Accumulated benefit obligation/Projected benefit obligation for services rendered to date	\$ (7,635,429)	(7,225,254)
Plan assets at fair value	<u>6,125,543</u>	<u>5,565,735</u>
Funded status (pension liability)	<u>\$ (1,509,886)</u>	<u>(1,659,519)</u>

**ROCKEFELLER BROTHERS FUND, INC.**

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	<b>2012</b>	<b>2011</b>
Net pension cost included the following components:		
Interest cost on projected benefit obligation	\$ 286,775	309,771
Service cost	23,500	28,000
Actual return on plan assets	(782,105)	(458,238)
Net amortization and deferral	672,084	110,165
Net periodic pension benefit cost (income)	\$ 200,254	(10,302)

The weighted average discount rates used in determining the actuarial present value of the projected benefit obligation were 3.53% in 2012 and 4.06% in 2011. The weighted average discount rates used in determining the period's benefit costs were 4.06% in 2012 and 5.15% in 2011. The expected long-term rate of return on assets was 7.75% and 8.00% in 2012 and 2011. Amortization of unrecognized prior service cost was \$117,914 in 2012 and \$134,111 in 2011. In 2012, the Fund was not required to make contributions to the Plan.

The plan assets are currently invested in mutual funds, with an allocation of 65% equity and 35% debt securities and are considered Level 1 in the fair value hierarchy. The Fund's investment goal is to obtain a competitive risk-adjusted return on the pension plan assets commensurate with prudent investment practices and the Plan's responsibility to provide retirement benefits for its participants, retirees, and their beneficiaries. The Plan's asset allocation targets are strategic and long term in nature and are designed to take advantage of the risk reducing impacts of asset class diversification. Investments within each asset category are further diversified with regard to investment style and concentration of holdings.

The accumulated amount not yet recognized as a component of net periodic benefit cost was \$2,542,863 and \$2,892,750 at December 31, 2012 and 2011, respectively. The net actuarial loss and prior service cost that will be amortized into net periodic benefit cost in 2013 are approximately \$294,000.

The anticipated benefit payments for the next 10 years are as follows:

Year ending December 31:	
2013	\$ 334,000
2014	403,000
2015	411,000
2016	438,000
2017	458,000
2018 – 2022	2,334,000

**(7) Postretirement Healthcare Benefits**

In addition to providing pension benefits, the Fund provides certain healthcare benefits for retired employees. Substantially all of the Fund's employees may become eligible for these benefits if they reach age 55 while employed by the Fund and have accumulated at least five years of service. Such benefits are provided through an insurance company.



**ROCKEFELLER BROTHERS FUND, INC.**

Notes to Financial Statements

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The following table sets forth the Plan's status as of December 31, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Accumulated postretirement benefit obligations (APBO) included in accounts payable and accrued liabilities	\$ 7,016,796	6,928,150

The net periodic postretirement benefit cost included the following components as of December 31, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Service cost	\$ 194,600	251,757
Interest cost	268,170	309,212
Amortization of unrecognized loss	214,934	185,225
Net periodic postretirement benefit cost	\$ 677,704	746,194

Actual retiree premiums paid by the Fund during 2012 and 2011 amounted to \$212,585 and \$236,685, respectively.

The discount rate assumed in determining the APBO was 3.90% in 2012 and 4.30% in 2011. The weighted average discount rates used in determining the period's benefit costs were 4.30% in 2012 and 5.50% in 2011. The medical cost trend rate assumed was 8.00% and 10.00%, declining to 5.00% over a five-year period for 2012 and 2011, respectively. Increasing the assumed medical cost trend rate by 1.00% each year would result in increases in both the APBO and the net periodic postretirement cost of \$1,205,225 and \$92,081 in 2012 and \$1,199,900 and \$103,860 in 2011, respectively. Decreasing the assumed medical cost trend rate by 1.00% each year would result in decreases in both the APBO and the net periodic postretirement cost of approximately \$966,766 and \$72,261 in 2012 and \$965,409 and \$82,979 in 2011, respectively.

The anticipated benefit payments for the next 10 years are as follows:

Year ending December 31:		
2013	\$	225,000
2014		265,000
2015		273,000
2016		291,000
2017		283,000
2018 – 2022		1,615,000

The accumulated amount not yet recognized as a component of net periodic benefit cost was \$2,771,105 and \$3,147,578 at December 31, 2012 and 2011, respectively. The net actuarial loss that will be amortized into net periodic benefit cost in 2013 is approximately \$231,100.

**ROCKEFELLER BROTHERS FUND, INC.**

Notes to Financial Statements

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**(8) Reconciliation of Grants Awarded**

The following table reconciles grants awarded and grants paid during 2012 and 2011:

Grants payable, December 31, 2010	\$	7,349,377
Grants awarded 2011		27,944,194
Grants paid 2011		<u>(28,303,465)</u>
Grants payable, December 31, 2011		6,990,106
Grants awarded 2012		30,305,987
Grants paid 2012		<u>(28,996,665)</u>
Grants payable, December 31, 2012	\$	<u><u>8,299,428</u></u>

The Fund estimates that the grants payable balance as of December 31, 2012 will be paid as follows:

Year ending December 31:		
2013	\$	7,389,428
2014		<u>910,000</u>
Total	\$	<u><u>8,299,428</u></u>

The net present value of grants payable is not materially different from amounts committed to be paid.

**(9) Related-Party Transactions**

The Fund was reimbursed for the cost of certain expenditures, which may include a proportionate share of direct and indirect compensation for accounting, human resource, and operations department staff; information technology services; occupancy; capital expenditures; employee benefits; and consultant and legal fees related to employee benefits issues from various related parties as presented in the following table at December 31, 2012 and 2011, respectively:

		<u>2012</u>	<u>2011</u>
Rockefeller Philanthropy Advisors	\$	—	13,700
Rockefeller Archive Center		574,300	563,000
Rockefeller Family Fund, Inc.		492,700	453,900
David Rockefeller Fund		<u>34,700</u>	<u>23,870</u>
	\$	<u><u>1,101,700</u></u>	<u><u>1,054,470</u></u>

During 2012, the Fund approved a grant to Rockefeller Philanthropy Advisors in the amount of \$450,000 designated as a contribution to its Climate Nexus project, payable over two years, \$250,000 in 2012 and \$200,000 in 2013. During 2011, the Fund made three grant appropriations to Rockefeller Philanthropy Advisors: one in the amount of \$200,000 designated as a contribution to its Climate Reality Project; one in the amount of \$25,000 designated as a contribution for its Sustainable Endowments Institute's

## ROCKEFELLER BROTHERS FUND, INC.

Notes to Financial Statements

December 31, 2012 and 2011

project billion Dollar Green Challenge; and one in the amount of \$100,000 designated as a contribution for its D5 Initiative.

During 2012, the Fund received two contributions from Rockefeller Philanthropy Advisors totaling \$6,500 designated for general support. During 2011, the Fund received three contributions from Rockefeller Philanthropy Advisors totaling \$7,250 designated for general support. In 2011, the Fund received a pledge from David Rockefeller, committing \$2.5 million to help support Egypt-led initiatives to organize civic education, democratic participation, and similar efforts. Relating to this pledge, \$1 million was received during 2011, \$1 million was received during 2012, and \$0.5 million is expected to be received during 2013.

The Fund paid fees of approximately \$1,086,000 and \$1,230,000 in 2012 and 2011, respectively, for maintenance of the Pocantico properties to Greenrock Corporation, which is wholly owned by Rockefeller family members.

### (10) Federal Taxes

As a private foundation, the Fund is assessed an excise tax under the Code. The provision for federal excise tax consists of a current provision on realized net investment income and a deferred provision on unrealized appreciation of investments. This tax is generally equal to 2%; however, it is reduced to 1% if a foundation meets certain distribution requirements under Section 4940(e) of the Code. The Fund provided for excise taxes at the rate of 2% in 2012 and 2011. The Fund's overpayment of excise taxes during 2008 resulted in a credit of \$1,021,954, which was applied against 2010 and 2011 tax obligations, leaving a balance remaining in the amount of \$128,229 to be applied against the Fund's 2012 tax obligation. The Fund was not required to pay estimated excise taxes during 2011. During 2012, the Fund made estimated excise tax payments totaling \$1,052,000. The federal excise tax expenses included in the accompanying financial statements were approximately \$921,000 and \$683,000 in 2012 and 2011, respectively. Excise tax receivables of approximately \$259,300 and \$113,400 have been reflected during 2012 and 2011, respectively, in accounts receivable in the accompanying financial statements. In 2012 and 2011, a deferred tax expense of approximately \$1,575,000 and \$1,415,000, respectively, is included in federal excise and other taxes in the accompanying financial statements.

### (11) Commitments

The Fund, together with its affiliates, occupies office facilities that provide for annual minimum rental commitments excluding escalation as follows:

2013	\$	598,000
2014		598,000
2015		598,000
2016		598,000
2017		598,000
2018 – 2023		3,588,000

## **ROCKEFELLER BROTHERS FUND, INC.**

### Notes to Financial Statements

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The Fund had a lease agreement which was effective January 1, 1998, for space the Fund occupied until June 2009. The terms of this lease expired in December 2012; however, the Fund entered into an early termination agreement to vacate one floor on July 31, 2012. Portions of this space had been subleased through 2012. Approximately \$1,100,000 was received in 2012 related to these subleases. On January 1, 2009, the Fund entered into a new lease agreement and relocated its offices in June 2009. Portions of this space are occupied by affiliated nonprofits; approximately \$146,000 is reimbursed each year by these entities. The terms of the lease for this location expire on December 31, 2023, with one five-year renewal option.

In 2004, the Fund received notice of a demand that it return amounts claimed as overpayments to the Fund in 1995 and 1996 as part of its liquidation of an investment in a certain partnership. The amount of the claim approximates \$2.3 million. Since legal issues underlying this claim are complex and a fair estimate of the potential liability cannot be presently determined, no amount for the claim has been included in these financial statements.

On January 1, 1992, the Fund entered into a formal arrangement with the National Trust for Historic Preservation in the United States, whereby the Fund assumes the costs associated with maintenance and operations of the Pocantico Historic Area, including all utilities, real estate and other taxes, and impositions assessed against the property. In 2012 and 2011, these costs aggregated approximately \$1,719,000 and \$1,623,000, respectively. Under the same agreement, the Fund agreed to conduct a program of public visitation of the Pocantico Historic Area. Historic Hudson Valley was engaged by the Fund to operate this program on its behalf. The public visitation program commenced in April 1994.

Pursuant to its limited partnership agreements, the Fund is committed to invest approximately \$95,800,000 as of December 31, 2012.

#### **(12) Subsequent Events**

In connection with the preparation of the financial statements, the Fund evaluated subsequent events after the statement of financial position date of December 31, 2012 through July 23, 2013, which was the date the financial statements were available to be issued, and determined that there were no additional matters that are required to be disclosed.

**ROCKEFELLER BROTHERS FUND, INC.**  
 Supplemental Schedule of Functional Expenses  
 Year ended December 31, 2012  
 (with summarized financial information for the year ended December 31, 2011)

	<b>Direct charitable activities</b>		<b>Subtotal</b>	<b>Program and grant management</b>	<b>Investment management</b>	<b>General management and federal excise and other taxes</b>	<b>2012 RBF Funds</b>	<b>2011 RBF Funds</b>
	<b>Principal Fund</b>	<b>Pocantico Fund</b>						
Salaries and employee benefits:								
Salaries	\$ 277,330	781,037	1,058,367	1,888,048	178,787	2,258,132	5,383,334	5,513,914
Employee benefits	144,694	450,659	595,353	985,071	93,526	1,188,976	2,862,926	2,729,573
	<u>422,024</u>	<u>1,231,696</u>	<u>1,653,720</u>	<u>2,873,119</u>	<u>272,313</u>	<u>3,447,108</u>	<u>8,246,260</u>	<u>8,243,487</u>
Other expenses:								
Grants awarded	—	—	—	30,305,987	—	—	30,305,987	27,944,194
Federal excise and other taxes	—	—	—	—	—	2,563,955	2,563,955	2,289,906
Consultants fees	—	806	806	200,023	6,004	359,776	566,609	574,871
Investment services	—	—	—	—	2,292,016	—	2,292,016	2,333,018
Legal, audit, and professional fees	—	70,787	70,787	4,896	107,723	368,814	552,220	441,748
Travel	29,479	33,267	62,746	557,379	6,447	12,960	639,532	544,181
Rent and electricity	133,528	—	133,528	1,064,119	89,105	1,281,102	2,567,854	3,006,210
Program conferences and events	361,329	—	361,329	—	—	—	361,329	388,190
Facilities maintenance and operations	—	1,719,320	1,719,320	—	—	—	1,719,320	1,622,551
Telephone, facsimile, and internet	3,852	18,520	22,372	30,694	2,659	41,325	97,050	115,469
General office expenses	87,883	137,496	225,379	241,176	20,871	356,961	844,387	795,859
Publications	—	—	—	—	—	105,007	105,007	119,470
Depreciation and amortization	49,188	111,514	160,702	391,989	33,356	498,243	1,084,290	2,506,926
	<u>\$ 1,087,283</u>	<u>3,323,406</u>	<u>4,410,689</u>	<u>35,669,382</u>	<u>2,830,494</u>	<u>9,035,251</u>	<u>51,945,816</u>	<u>50,926,080</u>

See accompanying independent auditors' report.