# ROCKEFELLER BROTHERS FUND, INC.

Financial Statements and Supplemental Schedule

December 31, 2011 and 2010

(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 statements of financial position of the Rockefeller Brothers Fund, Inc. (the Fund) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Fund'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Rockefeller Brothers Fund, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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 2011 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 schedule of functional expenses is fairly stated in all material respects in relation to the 2011 financial statements as a whole.

KPMG LLP

July 17, 2012

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

**ROCKEFELLER BROTHERS FUND, INC.**

Statements of Financial Position

December 31, 2011 and 2010

| **Assets** | | **Principal Fund** | **Pocantico Fund** | **Pocantico II Fund** | **2011 RBF Funds** | **2010 RBF Funds** |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ | 1,123,763 | 1,051 | — | 1,124,814 | 2,056,170 |
| Accounts receivable | | 912,326 | 69,675 | — | 982,001 | 1,640,776 |
| Contributions receivable | | 1,501,100 | — | 13,539,872 | 15,040,972 | 13,539,872 |
| Investments | | 659,214,813 | 63,073,186 | 4,499,880 | 726,787,879 | 762,124,599 |
| Program-related investments – real estate | | 510,000 | — | — | 510,000 | 510,000 |
| Prepaid expenses | | 5,989 | — | — | 5,989 | 14,472 |
| Fixed assets, net | | 6,552,276 | 800,651 | — | 7,352,927 | 9,492,146 |
| Interfund | | 1,950,358 | (2,258,337) | 307,979 | — | — |
| Total assets | $ | 671,770,625 | 61,686,226 | 18,347,731 | 751,804,582 | 789,378,035 |
| **Liabilities and Net Assets** | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable and accrued liabilities | $ | 7,549,642 | 1,827,630 | 451 | 9,377,723 | 7,683,774 |
| Grants payable | | 6,990,106 | — | — | 6,990,106 | 7,349,377 |
| Deferred taxes payable | | 2,462,989 | 228,245 | 17,771 | 2,709,005 | 1,294,207 |
| Total liabilities | | 17,002,737 | 2,055,875 | 18,222 | 19,076,834 | 16,327,358 |
| Commitments | | | | | | |
| Net assets: | | | | | | |
| Unrestricted | | 652,733,148 | 59,630,351 | — | 712,363,499 | 754,441,665 |
| Temporarily restricted | | 2,034,740 | — | 10,434,509 | 12,469,249 | 10,714,012 |
| Permanently restricted | | — | — | 7,895,000 | 7,895,000 | 7,895,000 |
| Total net assets | | 654,767,888 | 59,630,351 | 18,329,509 | 732,727,748 | 773,050,677 |
| Total liabilities and net assets | $ | 671,770,625 | 61,686,226 | 18,347,731 | 751,804,582 | 789,378,035 |

See accompanying notes to financial statements.

**ROCKEFELLER BROTHERS FUND, INC.**

Statements of Activities

Years ended December 31, 2011 and 2010

| | Principal Fund | Pocantico Fund | Pocantico II Fund | 2011 RBF Funds | 2010 RBF Funds |
|---|---|---|---|---|---|
| Changes in unrestricted net assets: | | | | | |
| Operating revenues: | | | | | |
| Investment income | $ 664,194 | 60,897 | — | 725,091 | 565,664 |
| Other income | 1,143,597 | — | — | 1,143,597 | 1,136,869 |
| Contributions | 7,350 | — | — | 7,350 | 6,500 |
| Net assets released from restrictions | 1,565,260 | 5,000 | 31,193 | 1,601,453 | 636,844 |
| | 3,380,401 | 65,897 | 31,193 | 3,477,491 | 2,345,877 |
| Operating expenses: | | | | | |
| Direct charitable activities | 1,304,778 | 4,322,985 | — | 5,627,763 | 5,752,223 |
| Program and grant management | 33,439,731 | — | — | 33,439,731 | 28,030,708 |
| Investment management | 2,718,995 | 209,837 | 16,147 | 2,944,979 | 2,804,641 |
| General management | 5,960,799 | 662,902 | — | 6,623,701 | 6,312,400 |
| Federal excise and other taxes | 2,012,013 | 262,847 | 15,046 | 2,289,906 | 864,183 |
| | 45,436,316 | 5,458,571 | 31,193 | 50,926,080 | 43,764,155 |
| Deficiency of operating revenues over operating expenses | (42,055,915) | (5,392,674) | — | (47,448,589) | (41,418,278) |
| Nonoperating activities: | | | | | |
| Net realized and unrealized gain on investments | 6,252,328 | 576,895 | — | 6,829,223 | 105,450,872 |
| Amounts not yet recognized as a component of net periodic benefit cost | (1,291,088) | (167,712) | — | (1,458,800) | (1,947,697) |
| | 4,961,240 | 409,183 | — | 5,370,423 | 103,503,175 |
| (Decrease) increase in unrestricted net assets | (37,094,675) | (4,983,491) | — | (42,078,166) | 62,084,897 |
| Changes in temporarily restricted net assets: | | | | | |
| Investment income | — | — | 4,936 | 4,936 | 3,634 |
| Contributions | 3,300,000 | 5,000 | — | 3,305,000 | 765,500 |
| Net realized and unrealized gain on investments | — | — | 46,754 | 46,754 | 679,298 |
| Net assets released from restrictions | (1,565,260) | (5,000) | (31,193) | (1,601,453) | (636,844) |
| Increase in temporarily restricted net assets | 1,734,740 | — | 20,497 | 1,755,237 | 811,588 |
| (Decrease) increase in net assets | (35,359,935) | (4,983,491) | 20,497 | (40,322,929) | 62,896,485 |
| Net assets: | | | | | |
| Beginning of year | 690,127,823 | 64,613,842 | 18,309,012 | 773,050,677 | 710,154,192 |
| End of year | $ 654,767,888 | 59,630,351 | 18,329,509 | 732,727,748 | 773,050,677 |

See accompanying notes to financial statements.

**ROCKEFELLER BROTHERS FUND, INC.**

Statements of Cash Flows

Years ended December 31, 2011 and 2010

| | | 2011 | 2010 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| (Decrease) increase in net assets | $ | (40,322,929) | 62,896,485 |
| Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities: | | | |
| Net realized and unrealized gain on investments | | (6,875,977) | (106,130,170) |
| Amount not yet recognized as a component of net periodic benefit cost | | 1,458,800 | 1,947,697 |
| Depreciation and amortization | | 2,506,926 | 2,525,527 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | | 658,775 | (165,666) |
| Contributions receivable | | (1,501,100) | — |
| Interest and dividends receivable | | — | 2,038 |
| Prepaid expenses | | 8,483 | (9,358) |
| Grants payable | | (359,271) | (5,535,932) |
| Accounts payable and accrued liabilities | | 235,149 | 366,786 |
| Deferred taxes payable | | 1,414,798 | 852,266 |
| Net cash used in operating activities | | (42,776,346) | (43,250,327) |
| Cash flows from investing activities: | | | |
| Proceeds from sales of investments | | 245,777,952 | 299,733,920 |
| Purchases of investments | | (203,565,255) | (254,642,613) |
| Purchases of fixed assets | | (367,707) | (513,710) |
| Net cash provided by investing activities | | 41,844,990 | 44,577,597 |
| Net (decrease) increase in cash and cash equivalents | | (931,356) | 1,327,270 |
| Cash and cash equivalents at beginning of year | | 2,056,170 | 728,900 |
| Cash and cash equivalents at end of year | $ | 1,124,814 | 2,056,170 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for taxes | $ | 77,689 | 60,620 |

See accompanying notes to financial statements.

## (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). In 1999, the Fund merged with the Charles E. Culpeper Foundation (Culpeper), a private, grant making corporation founded in New York. Under the terms of the merger, the Fund received all of the assets of Culpeper with a fair value of approximately $212,000,000, consisting principally of investments, cash, and cash equivalents. In addition, four members of Culpeper's board of trustees were elected to the Fund's board of trustees. The Fund's principal purpose is to make grants to local, national, and overseas philanthropic organizations. The Fund has also provided fellowships for aspiring teachers of color and scholarships for medical science and research.

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, as a conference center and a historic park benefiting the public.

**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 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

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

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 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.

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.

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, respectively. 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 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 $25,700,000 and $23,400,000 at December 31, 2011 and 2010, 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.

## (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, 2011 and 2010. At December 31, 2011 and 2010, Level 3 assets comprised approximately 45% and 48%, respectively, of the Fund's total investment portfolio fair value.

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | **Fair value** | **Level 1** | **Level 2** | **Level 3** |
| Financial assets: | | | | |
| 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 | — | — |
| | $ 726,787,879 | 42,102,784 | 358,428,203 | 326,256,892 |

| | December 31, 2010 | | | |
|---|---|---|---|---|
| | **Fair value** | **Level 1** | **Level 2** | **Level 3** |
| Financial assets: | | | | |
| Investments: | | | | |
| Fixed income hedge funds (a) | $ 36,075,539 | — | 14,108,137 | 21,967,402 |
| Equity long/short hedge funds (b) | 271,819,381 | — | 231,666,196 | 40,153,185 |
| Multistrategy hedge funds (c) | 121,615,645 | — | 105,341,953 | 16,273,692 |
| Private equity funds (d) | 270,657,594 | — | — | 270,657,594 |
| Real estate (e) | 16,336,574 | — | — | 16,336,574 |
| U.S. Treasuries | 14,319,063 | — | 14,319,063 | — |
| Cash and cash equivalents | 31,300,803 | 31,300,803 | — | — |
| | $ 762,124,599 | 31,300,803 | 365,435,349 | 365,388,447 |

In 2010, U.S. Treasuries were considered Level 2 while in 2011, they are considered Level 1. 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 other significant transfers between Level 1, Level 2, and Level 3 for the year ended December 31, 2011.

(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 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.

(d) This class includes private equity funds that invest primarily in private equity markets. At December 31, 2011 and 2010, there were $93,000,000 and $84,100,000, respectively, of unfunded commitments in relation to these funds.

(e) This class includes private equity funds that invest primarily in commercial real estate.

The redeemable alternative investment funds included in the Fund's investment portfolio at December 31, 2011 are redeemable based on the following terms and conditions:

| | | |
|---|---|---|
| Daily, with no notice | $ | 15,654,180 |
| Daily, with 10 days notice | | 23,155,543 |
| Monthly, with 100 days notice | | 178,957,686 |
| Quarterly, with 60 days notice | | 11,427,176 |
| Quarterly, with 90 days notice | | 103,618,426 |
| Quarterly, with 120 days notice | | 41,089,904 |
| Annually, with 180 days notice | | 38,553,153 |
| Redemption every 2 years, with 60 days notice | | 29,002,070 |
| Redemption every 2 years, with 100 days notice | | 6,194,532 |
| Redemption of ⅓ annually, with 65 days notice | | 9,918,294 |
| Redemption of ⅓ annually, with 90 days notice | | 25,785,791 |
| | $ | 483,356,755 |

The nonredeemable alternative investment funds included in the Fund's investment portfolio at December 31, 2011 have the following estimated remaining lives:

| | | |
|---|---|---|
| 2012 – 2015 | $ | 109,859,596 |
| 2016 – 2019 | | 18,722,994 |
| 2020 – 2032 | | 88,220,462 |
| | $ | 216,803,052 |

The following tables present reconciliations for all Level 3 assets measured at fair value for the periods January 1, 2011 to December 31, 2011 and January 1, 2010 to December 31, 2010:

| | Level 3 assets | | | | | |
|---|---|---|---|---|---|---|
| | Fixed income hedge funds | Equity long/short hedge funds | Multistrategy hedge funds | Private equity funds | Real estate | Total |
| Financial assets: | | | | | | |
| Fair value at January 1, 2010 | $ 25,635,940 | 34,426,366 | 15,137,238 | 233,018,379 | 15,741,652 | 323,959,575 |
| Realized and unrealized gains and losses, net | 777,368 | 5,705,133 | (1,066,671) | 44,038,658 | (548,661) | 48,905,827 |
| Purchases and settlements, net | (4,445,906) | 21,686 | 2,203,125 | (6,399,443) | 1,143,583 | (7,476,955) |
| 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 |

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 $2,034,740 in temporarily restricted net assets, and Pocantico Fund constitute unrestricted funds, which amounted to $712,363,499 and $754,441,665 in 2011 and 2010, 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 $7,895,000 in 2011 and 2010. The 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 $10,434,509 and $10,414,012 in 2011 and 2010, 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, 2011 and 2010, respectively:

| | Board-designated endowment funds | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Endowment net assets at January 1, 2010 | $ 692,356,768 | 9,752,424 | 7,895,000 | 710,004,192 |
| Investment return: | | | | |
| Net investment income | 565,664 | 3,634 | — | 569,298 |
| Net appreciation | 105,450,872 | 679,298 | — | 106,130,170 |
| Contributions to endowment | 6,500 | — | — | 6,500 |
| Other income | 1,136,869 | — | — | 1,136,869 |
| Amounts appropriated for expenditure | (45,075,008) | (21,344) | — | (45,096,352) |
| 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 | (50,783,427) | (31,193) | — | (50,814,620) |
| Endowment net assets at December 31, 2011 | $ 712,363,499 | 10,434,509 | 7,895,000 | 730,693,008 |

## (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, 2011 and 2010.

## (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 net asset or 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, 2011 and 2010.

The following tables set forth the Plan's funded status and amounts recognized in the financial statements at December 31, 2011 and 2010 (accounts payable and accrued liabilities):

| | | 2011 | 2010 |
|---|---|---|---|
| Accumulated benefit obligation/Projected benefit obligation for services rendered to date | $ | (7,225,254) | (6,169,531) |
| Plan assets at fair value | | 5,565,735 | 5,905,355 |
| Funded status/(pension liability) | $ | (1,659,519) | (264,176) |

| | | 2011 | 2010 |
|---|---|---|---|
| Net pension cost included the following components: | | | |
| Interest cost on projected benefit obligation | $ | 309,771 | 334,875 |
| Service cost | | 28,000 | — |
| Actual return on plan assets | | (458,238) | (412,071) |
| Net amortization and deferral | | 110,165 | 56,302 |
| Net periodic pension benefit (credit) cost | $ | (10,302) | (20,894) |

The weighted average discount rates used in determining the actuarial present value of the projected benefit obligation were 4.06% in 2011 and 5.15% in 2010. The weighted average discount rates used in determining the period's benefit costs were 5.15% in 2011 and 5.75% in 2010. The expected long-term rate of return on assets was 8% in 2011 and 2010. Amortization of unrecognized prior service cost was $134,111 in 2011 and $150,308 in 2010. In 2011, the Fund contributed $28,243 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 $2,892,750 and $1,458,862 at December 31, 2011 and 2010, respectively. The net actuarial loss and prior service cost that will be amortized into net periodic benefit cost in 2012 are approximately $307,000.

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

| | | |
|---|---|---|
| Years ending December 31: | | |
| 2012 | $ | 337,000 |
| 2013 | | 353,000 |
| 2014 | | 414,000 |
| 2015 | | 420,000 |
| 2016 | | 446,000 |
| 2017 – 2021 | | 2,300,000 |

## (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.

The following table sets forth the Plan's status as of December 31, 2011 and 2010:

| | | 2011 | 2010 |
|---|---|---|---|
| Accumulated postretirement benefit obligations (APBO) included in accounts payable and accrued liabilities | $ | 6,928,150 | 6,393,729 |

The net periodic postretirement benefit cost included the following components as of December 31, 2011 and 2010:

| | | 2011 | 2010 |
|---|---|---|---|
| Service cost | $ | 251,757 | 181,394 |
| Interest cost | | 309,212 | 269,635 |
| Amortization of unrecognized loss | | 185,225 | 117,309 |
| Net periodic postretirement benefit cost | $ | 746,194 | 568,338 |

Actual retiree premiums paid by the Fund during 2011 and 2010 amounted to $236,685 and $229,006, respectively.

The discount rate assumed in determining the APBO was 4.30% in 2011 and 5.50% in 2010. The weighted average discount rates used in determining the period's benefit costs were 5.50% in 2011 and 6.00% in 2010. The medical cost trend rate assumed was 10%, declining to 5% over a five-year period for 2011 and 2010. Increasing the assumed medical cost trend rate by 1% each year would result in increases in both the APBO and the net periodic postretirement cost of approximately $1,199,900 and $103,860 in 2011 and $1,016,000 and $76,000 in 2010, respectively. Decreasing the assumed medical cost trend rate by 1% each year would result in decreases in both the APBO and the net periodic postretirement cost of approximately $965,409 and $82,979 in 2011 and $830,000 and $62,000 in 2010, respectively.

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

| | | |
|---|---|---|
| Years ending December 31: | | |
| 2012 | $ | 197,000 |
| 2013 | | 214,000 |
| 2014 | | 242,000 |
| 2015 | | 257,000 |
| 2016 | | 277,000 |
| 2017 – 2021 | | 1,818,000 |

The accumulated amount not yet recognized as a component of net periodic benefit cost was $3,147,578 and $3,122,666 at December 31, 2011 and 2010, respectively. The net actuarial loss that will be amortized into net periodic benefit cost in 2012 is approximately $243,000.

## (8) Reconciliation of Grants Awarded

The following table reconciles grants awarded and grants paid during 2011 and 2010:

| | | |
|---|---|---|
| Grants payable, December 31, 2009 | $ | 12,885,309 |
| Grants awarded 2010 | | 22,468,398 |
| Grants paid 2010 | | (28,004,330) |
| Grants payable, December 31, 2010 | | 7,349,377 |
| Grants awarded 2011 | | 27,944,194 |
| Grants paid 2011 | | (28,303,465) |
| Grants payable, December 31, 2011 | $ | 6,990,106 |

The Fund estimates that the grants payable balance as of December 31, 2011 will be paid as follows:

| | | |
|---|---|---|
| Year ending December 31: | | |
| 2012 | $ | 6,510,106 |
| 2013 | | 480,000 |
| Total | $ | 6,990,106 |

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, 2011 and 2010, respectively:

| | | 2011 | 2010 |
|---|---|---|---|
| Rockefeller Philanthropy Advisors | $ | 13,700 | 1,092,000 |
| Rockefeller Archive Center | | 563,000 | 452,000 |
| Rockefeller Family Fund, Inc. | | 453,900 | 427,500 |
| David Rockefeller Fund | | 23,870 | 23,560 |
| | $ | 1,054,470 | 1,995,060 |

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 project Billion Dollar Green Challenge; and one in the amount of $100,000 designated as a contribution for its D5 Initiative. In 2010, the Fund made a grant to the Rockefeller Family Fund, Inc. in the amount of $100,000 for its program fund for voter registration modernization.

During 2011, the Fund received three contributions from Rockefeller Philanthropy Advisors totaling $7,250 and 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, and $1.5 million is expected to be received during 2012.

The Fund paid fees of approximately $1,230,000 and $1,277,000 in 2011 and 2010, 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% and 1% in 2011 and 2010, respectively. The Fund's overpayment of excise taxes during 2008 resulted in a credit of $1,021,954, which was applied against 2010 excise taxes, with a balance remaining in the amount of $796,376 to be applied against the Fund's 2011 tax obligation. As a result, the Fund was not required to pay estimated excise taxes during 2011 or 2010. The federal excise tax expenses included in the accompanying financial statements were approximately $683,000 and $212,000 in 2011 and 2010, respectively. Excise tax receivables of approximately $113,400 and $810,000 have been reflected during 2011 and 2010, respectively, in accounts receivable in the accompanying financial statements. In 2011 and 2010, respectively, deferred tax liabilities of $2,709,005 and $1,294,207 were 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:

| | |
|---|---|
| 2012 | $ 2,335,000 |
| 2013 | 570,000 |
| 2014 | 570,000 |
| 2015 | 570,000 |
| 2016 | 570,000 |
| 2017 – 2023 | 3,990,000 |

The Fund has a lease agreement which became effective January 1, 1998, for space the Fund occupied until June 2009. The terms of this lease expire in December 2012; however, the Fund has entered into an early termination agreement to vacate one floor on July 31, 2012. Portions of this space have been subleased through 2012. Approximately $1,099,000 is expected to be received each year through the end of the sublease agreements (2012). 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 2011 and 2010, these costs aggregated approximately $1,623,000 and $1,781,000, 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 $93,000,000 as of December 31, 2011.

## (12) Subsequent Events

In connection with the preparation of the financial statements, the Fund evaluated subsequent events after the balance sheet date of December 31, 2011 through July 17, 2012, 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.

**Schedule**

**ROCKEFELLER BROTHERS FUND, INC.**

Supplemental Schedule of Functional Expenses

Year ended December 31, 2011
(with summarized financial information for the year ended December 31, 2010)

| | Direct charitable activities | | | | | General management and federal | | |
|---|---|---|---|---|---|---|---|---|
| | **Principal Fund** | **Pocantico Fund** | **Subtotal** | **Program and grant management** | **Investment management** | **excise and other taxes** | **2011 RBF Funds** | **2010 RBF Funds** |
| Salaries and employee benefits: | | | | | | | | |
| Salaries | $ 390,083 | 778,493 | 1,168,576 | 1,954,042 | 195,863 | 2,195,433 | 5,513,914 | 5,395,064 |
| Employee benefits | 184,317 | 466,706 | 651,023 | 923,300 | 93,112 | 1,062,138 | 2,729,573 | 2,422,051 |
| | 574,400 | 1,245,199 | 1,819,599 | 2,877,342 | 288,975 | 3,257,571 | 8,243,487 | 7,817,115 |
| Other expenses: | | | | | | | | |
| Grants awarded | — | — | — | 27,944,194 | — | — | 27,944,194 | 22,468,398 |
| Federal excise and other taxes | — | — | — | — | — | 2,289,906 | 2,289,906 | 864,183 |
| Consultants fees | — | — | — | 236,543 | 6,000 | 332,328 | 574,871 | 341,096 |
| Investment services | — | — | — | — | 2,333,018 | — | 2,333,018 | 2,466,170 |
| Legal, audit, and professional fees | — | 20,011 | 20,011 | 3,207 | 124,657 | 293,873 | 441,748 | 533,024 |
| Travel | 21,735 | 20,959 | 42,694 | 479,287 | 11,518 | 10,682 | 544,181 | 530,493 |
| Rent and electricity | 187,287 | — | 187,287 | 1,237,055 | 113,334 | 1,468,534 | 3,006,210 | 2,907,849 |
| Program conferences and events | 388,190 | — | 388,190 | — | — | — | 388,190 | 359,221 |
| Facilities maintenance and operations | — | 1,622,551 | 1,622,551 | — | — | — | 1,622,551 | 1,781,084 |
| Telephone, facsimile, and internet | 5,615 | 20,342 | 25,957 | 37,087 | 3,495 | 48,930 | 115,469 | 98,856 |
| General office expenses | 68,276 | 145,402 | 213,678 | 233,495 | 22,124 | 326,562 | 795,859 | 768,047 |
| Publications | — | — | — | — | — | 119,470 | 119,470 | 303,092 |
| Depreciation and amortization | 59,275 | 1,248,521 | 1,307,796 | 391,521 | 41,858 | 765,751 | 2,506,926 | 2,525,527 |
| | $ 1,304,778 | 4,322,985 | 5,627,763 | 33,439,731 | 2,944,979 | 8,913,607 | 50,926,080 | 43,764,155 |

See accompanying independent auditors' report.