Financial Statements

John S. and James L. Knight Foundation
Years Ended Dec. 31, 2008 and 2007
With Report of Independent Certified Public Accountants

John S. and James L. Knight Foundation

Financial Statements

Years Ended Dec. 31, 2008 and 2007

Contents

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Report of Independent Certified Public Accountants

The Trustees
John S. and James L. Knight Foundation

We have audited the accompanying statements of financial position of the John S. and James L. Knight Foundation (the foundation) as of Dec. 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the foundation'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the foundation's internal control over financial reporting. Our audits included 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 effectiveness of the foundation'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, and 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 foundation at Dec. 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, in 2008 the foundation adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*.

Ernst & Young LLP

June 25, 2009

A member firm of Ernst & Young Global Limited

John S. and James L. Knight Foundation

Statements of Financial Position

	Dec. 31 2008	Dec. 31 2007
Assets		
Investments:		
Investment assets:		
Cash and cash equivalents	**$ 41,531,635**	$ 26,289,907
Interest, dividends and other net investment receivables	**28,685,047**	32,674,034
Receivable related to derivative instrument	**5,089,880**	9,697,607
U.S. government and agency obligations	**77,596,471**	192,460,654
Government-sponsored enterprises obligations	**23,141,613**	33,817,804
International bonds and other obligations	**62,982,081**	83,607,004
Corporate bonds and other obligations	**121,921,164**	84,906,143
Equity securities	**483,129,682**	934,068,519
Hedge fund investments	**401,870,922**	537,086,580
Alternative equity investments	**448,947,802**	479,439,834
Real estate investments	**112,528,394**	117,192,054
Total Investments	**1,807,424,691**	2,531,240,140
Securities pledged to creditors	**109,555,506**	–
Program-related investments	**1,666,666**	1,666,666
Beneficial interest in remainder trusts	**53,860,531**	85,793,200
Total Assets	**$ 1,972,507,394**	$ 2,618,700,006
Liabilities and net assets		
Liabilities:		
Payable under securities loan agreement	**$ 112,258,243**	$ –
Grants payable	**146,343,049**	116,044,991
Other liabilities	**1,357,996**	3,550,539
Pension and other postretirement benefits	**1,766,824**	331,510
Deferred taxes payable	**–**	3,809,031
Total liabilities	**261,726,112**	123,736,071
Net assets:		
Temporarily restricted	**53,860,531**	85,793,200
Unrestricted	**1,656,920,751**	2,409,170,735
Total net assets	**1,710,781,282**	2,494,963,935
Total liabilities and net assets	**$ 1,972,507,394**	$ 2,618,700,006

See accompanying notes.

John S. and James L. Knight Foundation

Statements of Activities

	Year Ended Dec. 31	
	2008	**2007**
Changes in unrestricted net assets:		
Investment activity:		
Interest	**$ 17,614,322**	$ 21,599,813
Dividends	**17,391,304**	20,736,664
Net realized gain on sale of investments	**55,653,671**	227,815,752
Net change in fair value of investments	**(673,747,422)**	143,024,653
Less: investment expenses	**(9,540,569)**	(9,903,166)
Total investment activity	**(592,628,694)**	403,273,716
Contributions received	**80,000**	304,573
Total investment activity and other support	**(592,548,694)**	403,578,289
Grants approved and expenses:		
Transformation grants	**31,703,782**	54,325,100
Strategic grants	**16,800,000**	–
Communities grants	**52,746,574**	52,673,674
Journalism Initiative grants	**34,005,767**	34,056,090
National Fund grants	**4,056,500**	19,037,249
Other grants	**930,655**	1,975,965
Grant forfeitures and other	**(1,426,108)**	(1,156,897)
Change in grant payable discount	**4,374,314**	(5,057,923)
Direct charitable activities	**2,601,383**	3,438,497
General and administrative expenses	**13,218,964**	12,908,768
Federal excise and other taxes, net	**(2,940,310)**	3,751,930
Total grants and expenses	**156,071,521**	175,952,453
(Decrease)/increase in unrestricted net assets from operating activities	**(748,620,215)**	227,625,836
Pension and postretirement changes other than net periodic pension and postretirement costs	**3,629,769**	(960,782)
(Decrease)/increase in unrestricted net assets	**(752,249,984)**	228,586,618
Changes in temporarily restricted net assets:		
Change in value of beneficial interest in remainder trusts	**(31,932,669)**	4,965,896
Total (decrease)/increase in net assets	**(784,182,653)**	233,552,514
Net assets at beginning of year	**2,494,963,935**	2,261,411,421
Net assets at end of year	**$ 1,710,781,282**	$ 2,494,963,935

See accompanying notes.

John S. and James L. Knight Foundation

Statements of Cash Flows

	Year Ended Dec. 31	
	2008	**2007**
Operating activities		
Change in net assets	**$ (784,182,653)**	$ 233,552,514
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized gain on sale of investments	**(55,653,671)**	(227,815,752)
Net change in fair value of investments	**673,747,422**	(143,024,653)
Change in value of beneficial interest in remainder trusts	**31,932,669**	(4,965,896)
Changes in operating assets and liabilities:		
Interest, dividends and other investment receivables	**11,299,452**	34,999,813
Disbursements for program-related investments	**–**	(1,666,666)
Grants payable	**30,298,058**	39,681,468
Deferred taxes	**(3,809,031)**	1,409,734
Pension and postretirement liability	**1,435,314**	(512,386)
Other liabilities	**(2,192,544)**	1,944,274
Net cash used in operating activities	**(97,124,984)**	(66,397,550)
Investing activities		
Proceeds from sale of investments	**647,903,573**	642,696,730
Purchases of investments	**(535,536,861)**	(568,467,906)
Net cash provided by investing activities	**112,366,712**	74,228,824
Net change in cash and cash equivalents	**15,241,728**	7,831,274
Cash and cash equivalents at beginning of year	**26,289,907**	18,458,633
Cash and cash equivalents at end of year	**$ 41,531,635**	$ 26,289,907

See accompanying notes.

John S. and James L. Knight Foundation

Notes to Financial Statements

Dec. 31, 2008

1. The Organization

The John S. and James L. Knight Foundation (the foundation), a nonprofit corporation, promotes excellence in journalism worldwide and invests in the vitality of 26 U.S. communities.

2. Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents are composed of various operating accounts and highly liquid investments with original maturities of 90 days or less.

Property, Plant and Equipment

The foundation records property, plant and equipment as an expense in the year purchased. Property, plant and equipment purchased for 2008 and 2007 was approximately $165,000 and $394,000 respectively, of which approximately $154,000 and $364,000 respectively, are reflected in General and administrative expenses with the remainder being reflected in investment expense in the Statements of Activities.

Program-Related Investments (PRIs)

In accordance with Section 4944 of the Internal Revenue Code (the code), the foundation is permitted to make investments that are related to its philanthropic programs. These investments are anticipated to have a return lower than fair value. In the year of the investment, the foundation receives a credit toward its distribution requirement. These investments are treated as grants in the year they are distributed. To the extent the investment is recovered by the foundation, the recovery is recognized as a negative distribution. Recoveries are reflected in Grant forfeitures and other in the Statements of Activities.

Program-related investments in the Statements of Financial Position represent a below market rate loan with a principal amount of $2,500,000. This is a 13 year loan bearing interest at 1% per annum. The loan terms provide for interest payments only during the first 10 years and principal amortization in years 11 through 13. The foundation intends to hold this loan to maturity. The foundation has open program-related investment commitments of approximately $833,334 as of Dec. 31, 2008.

The Foundation's management closely monitors this loan. Based on this review, management believes that the loan is fully realizable and has not recorded an allowance for credit losses.

2. Significant Accounting Policies (continued)

Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of investment activity and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Taxes

The foundation follows the policy of providing for federal excise tax on the net appreciation (both realized and unrealized) of investments. The deferred federal excise tax in the accompanying financial statements represents tax provided on the net unrealized appreciation of investments.

Implementation of FASB Statement No. 157

In Sept. of 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (FAS 157). FAS 157 establishes a standard framework for measuring fair value, clarifies the definition of "fair value" within that framework, and expands disclosures about the use of fair value measurements. This statement:

- Defines fair value as the "sale or exit price" in an orderly transaction.
- Identifies a Fair Value Hierarchy consisting of 3 levels, or types, of assets:
    1) Level one – refers to quoted prices for identical assets or liabilities in an active market.
    2) Level two – will base fair value estimates on "observable inputs" such as comparative transactions.
    3) Level three – will require the use of "unobservable inputs" such as liquidity and unfunded commitments.
- Emphasizes that fair value should be determined based on the assumptions that market participants would use in pricing the asset or liability.

FAS 157 is effective for fiscal years beginning after Nov. 15, 2007 (i.e., effective Jan. 1, 2008 for calendar year-end entities such as Knight Foundation).

2. Significant Accounting Policies (continued)

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform with the current year's presentation.

Net Asset Accounting

The foundation reports information regarding its financial position and activities according to the following two classes of net assets:

- Unrestricted net assets are not subject to donor-imposed stipulations or the restrictions have expired.

- Temporarily restricted net assets are subject to donor-imposed stipulations that can be fulfilled by actions of the foundation or that expire by the passage of time.

The foundation has no permanent restriction on its endowment imposed by its founders.

3. Investments

The investment goal of the foundation is to invest its assets in a manner that will achieve, over the long term, a total rate of return sufficient to replace the assets utilized for grants and expenses and to recoup any value lost due to inflation and to increase the spending power of the portfolio in a manner consistent with the risk and asset allocation parameters established by the investment committee.

To achieve this goal, some investment risk must be taken. To minimize such risk, the foundation diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies and investment managers. Key decisions in this regard are made by the foundation's investment committee, which has oversight responsibility for the foundation's investment program. The committee identifies appropriate asset categories for investments, determines the allocation of assets to each category and approves the investment strategies employed. The foundation has engaged Cambridge Associates LLC (Cambridge), an independent consulting firm, to execute the investment program, including the engagement of investment managers, legal advisers, and strategic allocations to index funds and limited partnerships. All financial assets are held in custody for the foundation in proprietary accounts

3. Investments (continued)

by BNY Mellon, a major commercial bank, except those assets that have been invested in limited partnerships, hedge funds or in certain products with multiple investors, such as index funds, all of which have separate custodial arrangements appropriate to their legal structure.

Approximately 39% and 50% of the foundation's total investments at Dec. 31, 2008 and 2007, respectively, are invested in institutional mutual funds, publicly traded securities that are listed on national exchanges, treasury and agency bonds of the U.S. government, bonds of sovereign foreign governments and investment and non-investment grade corporate bonds for which active trading markets exist. Such assets are valued at quoted closing prices at year end in accordance with GAAP. Realized gains and losses and increases and decreases in fair value on such investments are reflected in the Statements of Activities.

Approximately 26% and 24% of the foundation's total investments at Dec. 31, 2008 and 2007, respectively, were invested in hedge funds and derivative instruments. The hedge funds utilize a variety of investment strategies which can be broadly categorized as absolute return and long/short equities strategies. The derivative instruments consisted of a "portable alpha" product. These investments are not publicly listed or traded, and are not liquid investments. Each fund's investment manager calculates the fair value of investments on a monthly basis using the valuation guidelines stipulated in the respective investment agreements, in accordance with fair value methods accepted under GAAP (see discussion of FAS 157 below). Realized gains and losses and increases and decreases in fair value on the investments in hedge funds and derivative instruments are reflected in the Statements of Activities.

Approximately 31% and 24% of the foundation's total investments at Dec. 31, 2008 and 2007, respectively, were invested with numerous partnerships, in which the foundation is a limited partner, that specialize in making venture capital, buyout, distressed debt, and equity-based real estate investments. Such investments, typically investments in private equity or debt securities of companies or properties that are not publicly listed or traded, are not liquid investments. The value of such investments is determined by the partnerships' general partners, who must follow the valuation guidelines, such as appraisals and comparable company trade data, stipulated in the respective limited partnership agreements and in accordance with fair value methods accepted under GAAP (see discussion of FAS 157 below). Realized gains and losses and increases and decreases in fair value on the investments in limited partnerships are reflected in the Statements of Activities. All limited partnerships are audited annually by independent certified public accounting firms. As of Dec. 31, 2008, pursuant to its limited partnership agreements, the foundation is committed to contributing approximately $320,426,000 in additional capital over the next 10 years to various partnerships. Unpaid commitments at Dec. 31, 2007, were approximately $357,770,000.

3. Investments (continued)

A detail of fair value and cost by investment class follows:

	Dec. 31, 2008		Dec. 31, 2007	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Cash and cash equivalents	**$ 41,531,635**	**$ 41,531,635**	$ 26,289,907	$ 26,289,907
Interest, dividends and other net investment receivables	**28,685,047**	**28,189,382**	32,674,034	32,309,620
Receivable related to derivative instrument	**5,089,880**	**–**	9,697,607	–
U.S. government and agency obligations	**77,596,471**	**62,189,694**	192,460,654	187,339,566
Government-sponsored enterprises obligations	**23,141,613**	**21,793,412**	33,817,804	32,934,612
International bonds and other obligations	**62,982,081**	**62,278,469**	83,607,004	77,599,418
Corporate bonds and other obligations	**121,921,164**	**128,245,038**	84,906,143	85,513,951
Equity securities	**483,129,682**	**740,552,780**	934,068,519	760,011,749
Hedge fund investments	**401,870,922**	**293,225,335**	537,086,580	323,731,431
Alternative equity investments	**448,947,802**	**618,833,272**	479,439,834	542,467,642
Real estate investments	**112,528,394**	**101,816,038**	117,192,054	82,146,779
Total	**$ 1,807,424,691**	**$ 2,098,655,055**	$ 2,531,240,140	$ 2,150,344,675

Highly liquid investments with original maturities of three months or less are reported as cash equivalents.

As discussed in Note 2 to these financial statements, the foundation adopted FAS 157, *Fair Value Measurements*, as of Jan. 1, 2008. As required by FAS 157, investments are measured on a fund-by-fund basis and reported at fair value in one of the following categories based on inputs:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments which are included in Level 1 include listed equity securities and commingled funds traded in active markets with daily pricing and cash and cash equivalents. As required by SFAS 157, the foundation, does not adjust the quoted price for these investments.

Level 2 – Pricing inputs are observable for the investment, either directly or indirectly, as of reporting date but are not the same as those used in Level 1. Fair value is determined through the use of models or other valuation methodologies. The types of investments included in this category are all other commingled funds, publicly-traded securities with restrictions on disposition and fixed income securities.

3. Investments (continued)

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The foundation uses the Net Asset Value determined by the investment manager as fair market value except where certain conditions exist. Those conditions include: changes to key personnel, material amendments to key terms, material pending litigation, imposition of gates, redemption fees, and material amendments to key terms. Investments in hedge funds, alternative equity and real estate investments are included in this category.

The following table summarizes the levels in the SFAS 157 fair value hierarchy into which the foundation's investments fall as of Dec. 31, 2008:

	Fair Value Measurement at Dec. 31, 2008			
	Dec. 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Input (Level 3)
Description				
Cash and cash equivalents	$ 41,531,635	$ (22,837,628)	$ 64,369,263	$ –
Interest, dividends and other investment receivables	28,685,047	28,685,047	–	–
Receivable related to derivative instrument	5,089,880	–	–	5,089,880
U.S. government and agency obligations	77,596,471	–	77,596,471	–
Government-sponsored enterprises obligations	23,141,613	–	23,141,613	–
International bonds and other obligations	62,982,081	–	62,982,081	–
Corporate bonds and other obligations	121,921,164	–	121,921,164	–
Equity securities	483,129,682	419,846,771	63,282,911	–
Hedge fund investments	401,870,922	–	–	401,870,922
Alternative equity investments	448,947,802	–	–	448,947,802
Real estate investments	112,528,394	–	–	112,528,394
Total investments	$ 1,807,424,691	$ 425,694,190	$ 413,293,503	$ 968,436,998

The preceding table includes a negative balance for Level 1 cash and cash equivalents. This negative balance represents the value of checks written but uncashed as of Dec. 31, 2008.

3. Investments (continued)

The changes in investments classified as Level 3 are as follows for the year ended Dec. 31, 2008:

Level 3 Reconciliation

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Hedge Funds	Alternative Equity	RE Investment	Other	Total
Beginning Balance Jan. 1, 2008	$ 537,086,580	$ 479,439,834	$ 117,192,054	$ 9,697,607	$ 1,143,416,075
Purchases, issuances, and settlements	(7,473,259)	65,013,962	17,387,584	–	74,928,286
Total losses (realized/unrealized), net	(127,742,399)	(95,505,994)	(22,051,244)	(4,607,727)	(249,907,363)
Ending Balance Dec. 31, 2008	$ 401,870,922	$ 448,947,802	$ 112,528,394	$ 5,089,880	$ 968,436,998
The amount of total net losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ (160,808,047)	$ (115,809,253)	$ (24,332,918)	$ (4,607,727)	$ (305,557,945)

Gains and losses (realized and unrealized) are included in Change in Net Assets in the Statement of Activity for the year ended Dec. 31, 2008.

4. Derivative Financial Instruments

Some investment managers retained by the foundation have been authorized to use certain derivative financial instruments in a manner set forth by the foundation’s written investment policy, specific manager guidelines or partnership/fund agreement documents. Specifically, derivative financial instruments may be used for the following purposes: (1) currency forward contracts and options may be used to hedge non-dollar exposure in foreign investments; (2) covered call options may be sold to enhance yield on major equity positions; (3) futures contracts may be used to equitize excess cash positions, rebalance asset categories within the portfolio, adjust risk exposures within the portfolio, or to rapidly increase or decrease exposure to specific investment positions in anticipation of subsequent cash trades; and (4) futures contracts and options may be used by hedge fund managers to hedge or leverage positions in portfolios in their respective funds. Authorization to use these derivative financial instruments is currently restricted to 29 hedge fund managers, who manage investments totaling approximately $401,870,922.

4. Derivative Financial Instruments (continued)

Cambridge is also authorized to use derivatives to execute certain investment strategies. Derivative financial instruments are recorded at fair value in the Statements of Financial Position with changes in fair value reflected in the Statements of Activities.

During 2008 and 2007 the foundation invested in a "portable alpha" product which is designed to provide a return in excess of a certain benchmark. The investment manager invests the principal in a basket of securities that replicates the benchmark, and then leverages the principal investment and invests in fixed income strategies. The foundation's equity investment is benchmarked to the Standard & Poor's 500 Index and is valued at approximately $18,658,618 at Dec. 31, 2008. The foundation's fixed income investment is benchmarked to the Barclays Capital U.S. 5+ Year Treasury Bond Index and is valued at approximately $36,629,706 at Dec. 31, 2008. At Dec. 31, 2008, a receivable of approximately $5,090,000 reflecting the fair value of the leveraged investments was reported in Receivable related to derivative instrument on the Statements of Financial Position, and an equal amount was included in Net change in fair value of investments in the Statements of Activities.

In Cambridge's opinion, the use of derivative financial instruments in its investment program is appropriate and customary for the investment strategies employed. The foundation's management concurs with this opinion. Using those instruments reduces certain investment risks and generally adds value to the portfolio. The instruments themselves, however, do involve some investment and counterparty risk not fully reflected in the foundation's financial statements. Cambridge does not anticipate that losses, if any, from such instruments would materially affect the financial position of the foundation, and the foundation's management concurs.

5. Grants

The foundation records grants in full as expenses when approved. Grants payable at Dec. 31, 2008 and 2007 represents the present value of multiyear grants using a 3.25% and 7.25% discount rate, respectively. The foundation made grant payments of $116,206,414 and $121,267,122 in 2008 and 2007, respectively.

5. Grants (continued)

As of Dec. 31, 2008, the foundation had future grant commitments, which are scheduled for payment in future years as follows:

2009	$ 67,966,604
2010	40,852,113
2011	18,173,555
2012	11,774,785
2013	5,630,000
2014-17	13,230,000
	157,627,057
Discounted to present value	(11,284,008)
Grants payable	$ 146,343,049

6. Federal Excise Taxes

The foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the code and, with the exception of unrelated business income from debt-financed, passive investments, is not subject to federal or state income tax. However, the foundation is classified as a private foundation and is subject to a federal excise tax of 2% (or 1% under certain circumstances) on net investment income and net realized gains, as defined by the code. The foundation expects to qualify for the 1% tax rate in 2008 and was subject to the 1% tax rate in 2007.

Total excise and other taxes paid by the foundation for the years ended Dec. 31, 2008 and 2007 amounted to approximately $1,923,000 and $2,856,000, respectively.

7. Employee Pension Plan and Other Postretirement Benefit Plans

The foundation sponsors a pension plan with defined benefit and cash balance features for its eligible employees. The pension benefits for all employees hired prior to Jan. 1, 2000, will be the greater of the benefits as determined under the defined benefit feature of the pension plan or the cash balance feature of the pension plan. The pension benefits for all employees hired on or subsequent to Jan. 1, 2000, will be determined under the cash balance feature of the pension plan. The foundation also sponsors postretirement medical and life insurance benefit plans.

7. Employee Pension Plan and Other Postretirement Benefit Plans (continued)

The following table sets forth the pension and other postretirement benefits plans' funded status and amounts recognized in the foundation's Statements of Activities and Financial Position:

	Pension Plan		Other Postretirement Benefit Plans	
	Year Ended Dec. 31		Year Ended Dec. 31	
	2008	**2007**	**2008**	**2007**
Funded status				
Fair value of plan assets	**$ 8,763,010**	$ 9,489,569	**$ 816,179**	$ 906,683
Benefit obligation	**(9,673,316)**	(9,304,161)	**(1,672,694)**	(1,423,601)
Funded status of the plan	**$ (910,306)**	$ 185,408	**$ (856,515)**	$ (516,918)
Prior service cost	**$ 20,966**	$ (136,060)	**$ –**	$ –
Accumulated gain (loss)	**(3,438,882)**	(27,945)	**48,045**	423,906
Pension and postretirement changes other than net periodic pension and postretirement costs	**(3,417,916)**	(164,005)	**48,045**	423,906
Cumulative employer contribution in excess (deficiency) of net periodic benefit costs	**2,507,607**	349,413	**(904,560)**	(940,824)
Accrued benefit asset (liability) recognized in the Statements of Financial Position	**$ (910,309)**	$ 185,408	**$ (856,515)**	$ (516,918)

7. Employee Pension Plan and Other Postretirement Benefit Plans (continued)

	Pension Plan		Other Postretirement Benefit Plans	
	Year Ended Dec. 31		Year Ended Dec. 31	
	2008	**2007**	**2008**	**2007**
Components of net periodic benefit cost				
Service cost	**$ 447,393**	$ 466,228	**$ 179,711**	$ 217,424
Interest cost	**570,391**	531,197	**87,890**	75,474
Expected return on plan assets	**(752,529)**	(684,586)	**(71,534)**	(62,189)
Amortization of prior service cost	**(2,356)**	42,798	**–**	–
Recognized actuarial loss (gain)	**–**	30,369	**(24,586)**	(10,740)
Net periodic benefit cost	**$ 262,899**	$ 386,006	**$ 171,481**	$ 219,969
Actual return on plan assets	**$ (2,304,755)**	$ 877,186	**$ (233,636)**	$ 37,833
Employer contributions	**2,421,093**	–	**207,745**	157,579
Employee contributions	**–**	–	**12,112**	8,740
Benefits paid	**842,897**	724,675	**76,725**	59,834
Actuarial assumptions				
Discount rate	**6.35%**	6.32%	**6.14%**	6.52%
Expected return on plan assets	**8.00**	8.00	**8.00**	8.00
Rate of compensation increase	**5.00**	5.00	**5.00**	5.00
Health care cost trend rate assumptions				
Initial trend rate	**N/A**	N/A	**11.00%**	12.00%
Ultimate trend rate	**N/A**	N/A	**5.25**	5.25
Year ultimate trend is reached	**N/A**	N/A	**2014**	2014

The expected long-term rate of return on plan assets for determining net periodic pension cost is chosen by the foundation from a best estimate range determined by the actuary by applying anticipated long-term returns and long-term volatility for various asset categories to the target asset allocation of the plan.

The calculations related to other postretirement benefit plans do not anticipate any savings from the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

7. Employee Pension Plan and Other Postretirement Benefit Plans (continued)

Expected benefit payments are as follows:

	Pension Plan	Other Postretirement Benefit Plans
2009	$ 683,504	$ 70,914
2010	645,249	79,988
2011	610,236	88,774
2012	843,632	101,190
2013	800,361	100,263
2014-2019	4,857,618	595,305

During 2009, the foundation is not required to make any contributions to the pension or to the other postretirement benefit plans. The foundation may choose to make a contribution during 2009.

The investment goal for plan assets is to provide sufficient liquidity to meet payout requirements while maintaining safety of principal through prudent diversification. During 2008, asset allocation targets for the pension plan were large-cap domestic equity, 40%, small-cap domestic equity, 10%, international equity, 20%, domestic fixed income, 20%, and Treasury Inflation-Protected Securities, 10%. During 2008, asset allocation targets for the other postretirement benefit plans were large-cap domestic equity, 65%, small-cap domestic equity, 10%, international equity, 10%, domestic fixed income, 10%, and domestic high yield, 5%.

7. Employee Pension Plan and Other Postretirement Benefit Plans (continued)

A detail of the fair value of plan assets by investment class follows:

	Pension Plan		Other Postretirement Benefit Plans	
	Dec. 31		Dec. 31	
	2008	**2007**	**2008**	**2007**
Cash and cash equivalents	**$ 2,681,818**	$ 169,859	**$ 275,688**	$ 174,601
Interest, dividends and other investment receivables	**23,589**	27,371	**181**	646
U.S. government and agency obligations	**1,936,879**	1,953,373	**–**	–
Corporate bonds and other obligations	**410,336**	701,285	**136,501**	72,946
Equity securities	**3,710,388**	6,637,681	**403,809**	658,490
Total	**$ 8,763,010**	$ 9,489,569	**$ 816,179**	$ 906,683

In addition, the foundation sponsors a defined contribution plan for its eligible employees for which it has no fixed liabilities. Effective Jan. 1, 2002, the foundation's defined contribution plan was amended to add an employer matching contribution component. During 2008 and 2007, the foundation made contributions to the defined contribution plan of approximately $180,000 and $177,000, respectively.

8. Leases

The foundation has a lease for approximately 21,300 square feet of office space in Miami, Florida, which expires in 2013. Rental expense for office and equipment leases for 2008 and 2007 was approximately $803,000 and $897,000, respectively. Future minimum lease payments for the office lease are as follows:

2009	$ 736,993
2010	752,957
2011	768,921
2012	784,884
2013	459,401
Total	$ 3,503,156

9. Beneficial Interest in Remainder Trusts

The foundation has a beneficial interest in charitable remainder trusts established by John S. Knight. Under the terms of the trusts, distributions are made from the trusts to designated beneficiaries for the remainder of their lives. The remainder of the assets in the trusts will be transferred to the foundation. All of the assets of the trusts are administered and held in the custody of First Merit bank. The trusts were established in 1975 and became irrevocable in 1981.

The foundation values its interest in the trusts using the methodology described in the National Committee on Planned Giving's 2007 publication, *Valuation Standards for Charitable Planned Gifts*. This methodology is a two-step process starting with the fair market value of the assets. The first step uses a 5% payout rate, life expectancy based on IRS Mortality Tables and assumed investment returns to determine the value of the interest at its projected termination. The second step discounts this future value using the Consumer Price Index. As of Dec. 31, 2008 and 2007 the value of the foundation's estimated interest in the remainder trusts was approximately $53,861,000 and $85,793,000, respectively.

For the purposes of SFAS 157 application, all beneficial interest in remainder trust assets are classified as Level 2 assets and are composed of $6,119,000, cash and cash equivalents, $16,412,000, government & corporate obligations, and $31,329,000, equity securities.

10. Contributions Received

During 2007, the foundation received a grant commitment of $480,000 from a private for-profit corporation, of which $80,000 and $300,000 was received in 2008 and 2007, respectively. The foundation agreed to use the funds to supplement a grant made by the foundation to a journalism grantee. Accordingly, the foundation made payments to the grantee of $80,000 and $300,000 in 2008 and 2007, respectively. During 2008, the contributor informed the foundation that they would be making no further contributions. As a result, the $100,000 uncollected is included in Grant forfeitures and other in the Statements of Activity. The foundation did not incur any fundraising or collection costs association with this grant.

11. Securities Lending

The Foundation lends certain securities to generate investment income. Selected securities are loaned and securitized primarily by collateral in the form of cash or cash equivalents equal to at least 102% of the fair market value of the securities. As of Dec. 31, 2008, the Foundation recognized a receivable for the fair market value of securities on loan of $109,556,000 and a corresponding liability of $112,259,000 was recognized for collateral received.

11. Securities Lending (continued)

Collateral received by the Foundation as of Dec. 31, 2008, consisted of $109,067,000 in cash and $3,192,000 in short-term government obligations. Of the cash collateral received, $32,431,133 was invested in securities with maturities of 90 days or less and $76,635,419 was invested in Corporate obligations. At Dec. 31, 2008, the fair market value of invested collateral was $107,493,363, of which $32,389,154 was included in Cash and cash equivalents, $3,192,000 was included in U.S. government and agency obligations and $71,912,209 was included in Corporate bonds and other obligations in the Statement of Financial Position.

For the year ended Dec. 31, 2008, the Foundation recognized an unrealized loss of $4,765,189 in net increases (decreases) in market value in the Statement of Activity related to changes in the value of collateral investments, of which $41,979 related to Cash and cash equivalents and $4,723,210 related to corporate obligations.