



South Bend, Indiana

ANNUAL REPORT
June 30, 2010



Kruggel, Lawton & Company, LLC
Accountants and Advisors
Elkhart, Indiana

THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

ANNUAL REPORT

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
The Public Education Foundation, Inc.
South Bend, Indiana

We have audited the accompanying statements of assets and net assets-cash basis of The Public Education Foundation, Inc. as of June 30, 2010 and 2009, and the related statements of support, revenue, expenses and changes in net assets-cash basis and the statements of expenses by functional and natural classification-cash basis for the years then ended. These financial statements are the responsibility of the Organization'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

As described in Note 1, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets of The Public Education Foundation, Inc. as of June 30, 2010 and 2009, and its support, revenue, expenses and changes in net assets for the years then ended on the basis of accounting described in Note 1.

Respectfully submitted,

Kruggel, Lawton & Company, LLC
Certified Public Accountants

Elkhart, Indiana
October 26, 2010

THE PUBLIC EDUCATION FOUNDATION, INC.South Bend, Indiana

STATEMENTS OF ASSETS AND NET ASSETS**CASH BASIS**

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	98,529	157,135
Payroll taxes refundable	1,482	589
Total Current Assets	100,011	157,724
OTHER ASSETS		
Funds functioning as permanent endowments	43,979	24,396
Permanent endowment	1,150,003	1,058,330
Total Other Assets	1,193,982	1,082,726
TOTAL ASSETS	1,293,993	1,240,450

NET ASSETS

NET ASSETS		
Unrestricted		
General operating	(14,059)	15,543
Funds functioning as permanent endowments	43,979	24,396
Temporarily restricted	114,070	142,181
Permanently restricted	1,150,003	1,058,330
TOTAL NET ASSETS	1,293,993	1,240,450

The Notes to Financial Statements are an integral part of this statement.

THE PUBLIC EDUCATION FOUNDATION, INC.South Bend, Indiana

STATEMENTS OF SUPPORT, REVENUE, EXPENSES AND CHANGES IN NET ASSETS**CASH BASIS**

For the Years Ended June 30, 2010 and 2009

UNRESTRICTED NET ASSETS	<u>2010</u>	<u>2009</u>
GENERAL OPERATING		
Public Support		
Individual and corporate contributions	107,566	75,363
Distributions from permanent endowments	81,478	91,682
Total Public Support	189,044	167,045
Revenue		
Indiana Education license plates	5,146	6,750
Interest	72	3,328
Change in unrealized gain in equity securities	0	(3,001)
Total Revenue	5,218	7,077
Net assets released from restrictions:		
Hay, Harrison, Madison, and Wilson Primary School Reading Program	91,417	66,748
Lincoln Primary School Reading Program	119,323	20,235
Coquillard Muessel Primary School Reading Program	5,191	0
Forums and seminars	15,097	24,116
Total Net Assets Released from Restrictions	231,028	111,099
Net assets reclassified:		
Net assets board designated for permanent endowment	(17,246)	(12,927)
Total Net Assets Reclassified	(17,246)	(12,927)
TOTAL SUPPORT AND REVENUE FOR UNRESTRICTED PURPOSES	408,044	272,294
Expenses		
Program services	341,899	227,774
Supporting services:		
Management and general	43,832	35,615
Fundraising	51,915	47,089
Total Expenses	437,646	310,478
DECREASE FROM GENERAL OPERATING ACTIVITIES	(29,602)	(38,184)
FUNDS FUNCTIONING AS PERMANENT ENDOWMENTS		
Board designated Community Foundation contributions	17,246	12,927
Unrealized gain (loss) from permanent endowments	2,337	(3,269)
INCREASE IN FUNDS FUNCTIONING AS PERMANENT ENDOWMENTS	19,583	9,658
DECREASE IN UNRESTRICTED NET ASSETS	(10,019)	(28,526)

The Notes to Financial Statements are an integral part of this statement.

THE PUBLIC EDUCATION FOUNDATION, INC.South Bend, Indiana

STATEMENTS OF SUPPORT, REVENUE, EXPENSES AND CHANGES IN NET ASSETS**CASH BASIS (CONTINUED)**

For the Years Ended June 30, 2010 and 2009

TEMPORARILY RESTRICTED NET ASSETS

Hay, Harrison, Madison and Wilson Primary School Reading Program	127,620	66,748
Lincoln Primary School Reading Program	0	162,150
Coquillard Muessel Primary School Reading Program	60,000	0
Forums and seminars	15,097	17,965
Wenger & Porter Athletic Grant	200	0
Total Contributions to Temporarily Restricted Net Assets	202,917	246,863
Net assets released from restrictions	(231,028)	(111,099)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(28,111)	135,764
PERMANENTLY RESTRICTED NET ASSETS		
Investment earnings, net of expenses	23,586	29,515
Distributions	(62,860)	(72,189)
Realized and unrealized gains (losses)	130,947	(350,093)
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	91,673	(392,767)
INCREASE (DECREASE) IN NET ASSETS	53,543	(285,529)
NET ASSETS AT BEGINNING OF YEAR	1,240,450	1,525,979
NET ASSETS AT END OF YEAR	1,293,993	1,240,450

The Notes to Financial Statements are an integral part of this statement.

THE PUBLIC EDUCATION FOUNDATION, INC.South Bend, Indiana

STATEMENT OF EXPENSES BY FUNCTIONAL AND NATURAL CLASSIFICATION**CASH BASIS**

For the Year Ended June 30, 2010

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising Expense</u>	<u>Total</u>
Wages and contracted labor	63,389	21,130	21,130	105,649
Payroll taxes	3,124	1,041	1,041	5,206
Grants to teachers	15,370	0	0	15,370
Other grants	28,271	0	0	28,271
Thank-a-Teacher	1,282	0	0	1,282
School projects	229,234	0	0	229,234
Forums and seminars	0	0	15,796	15,796
Truck pull	0	0	8,075	8,075
Printing	21	1,912	4,314	6,247
Postage	488	811	1,559	2,858
Bank and other fees	0	37	0	37
Professional fees	0	12,934	0	12,934
Insurance	0	2,060	0	2,060
Office supplies and expense	0	826	0	826
Professional development	0	59	0	59
Advertising	720	0	0	720
Dues and subscriptions	0	1,660	0	1,660
Miscellaneous	0	1,362	0	1,362
	<u>341,899</u>	<u>43,832</u>	<u>51,915</u>	<u>437,646</u>

The Notes to Financial Statements are an integral part of this statement.

THE PUBLIC EDUCATION FOUNDATION, INC.South Bend, Indiana

STATEMENT OF EXPENSES BY FUNCTIONAL AND NATURAL CLASSIFICATION**CASH BASIS**

For the Year Ended June 30, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising Expense</u>	<u>Total</u>
Wages and contracted labor	39,454	13,151	13,151	65,756
Payroll taxes	2,222	741	741	3,704
Grants to teachers	18,923	0	0	18,923
Other grants	4,606	0	0	4,606
Thank-a-Teacher	1,098	0	0	1,098
School projects	147,993	0	0	147,993
Forums and seminars	0	0	25,349	25,349
Printing	7,629	616	4,586	12,831
Postage	0	1,894	1,627	3,521
Bank and other fees	0	108	0	108
Professional fees	0	7,826	0	7,826
Insurance	0	3,229	0	3,229
Office supplies and expense	0	239	0	239
Professional development	0	1,656	0	1,656
Advertising	1,560	0	0	1,560
Strategic planning	0	3,944	0	3,944
Newsletters	1,623	0	1,623	3,246
Dues and subscriptions	0	1,245	0	1,245
Miscellaneous	2,666	966	12	3,644
	<u>227,774</u>	<u>35,615</u>	<u>47,089</u>	<u>310,478</u>

The Notes to Financial Statements are an integral part of this statement.

THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2010 and 2009

NATURE OF BUSINESS

The Organization provides grants to teachers and projects within the South Bend Community School Corporation to advocate, promote and fund initiatives which enrich learning experiences for the children of the South Bend Community School Corporation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accompanying financial statements were prepared on the cash basis of accounting. That method differs from accounting principles generally accepted in the United States of America since it requires revenues and their related assets to be recorded when received rather than when earned and expenses and their related liabilities to be recorded when paid rather than when incurred.

FINANCIAL STATEMENT PRESENTATION

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, which sets standards for reporting on financial statements of not-for-profit organizations. Under ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Thus, the accompanying financial statements report information regarding its assets, liabilities, net assets, support, revenue and expenses according to these three classes of net assets.

Unrestricted net assets represent the part of the net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for the support of the Organization.

Temporarily restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the Organization. Temporarily restricted net assets also include cumulative appreciation and reinvested gains on permanently restricted net assets, which have not been appropriated by management of the Organization.

Permanently restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

ASC 958-205 also provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission (ULC; formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. ASC 958-205 also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA.

THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2010 and 2009

FAIR VALUE MEASUREMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board Accounting Standards Codification (ASC) 820. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 applies to all assets and liabilities that are measured and reported on a fair value basis. The Organization adopted all provisions of ASC 820 effective July 1, 2009. The adoption of ASC 820 did not have a material impact on the financial statements of the Organization.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash is held at a local bank and is insured up to \$250,000 by the FDIC.

CONTRIBUTIONS

Contributions received are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, temporarily restricted assets are reclassified to unrestricted net assets and reported in the Statements of Support, Revenue, Expenses and Changes in Net Assets Cash Basis as net assets released from restrictions. The primary source of support is individual and corporate contributions.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the program and other activities have been summarized on a functional basis in the Statements of Support, Revenue, Expenses and Changes in Net Assets Cash Basis. Accordingly, certain costs have been allocated between program and supporting service expenses.

INCOME TAXES

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has determined that the Organization is not a private foundation within the meaning of Section 509(a).

THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2010 and 2009

The Income Taxes Topic of the Financial Accounting Standards Board Accounting Standards Codification (ASC) 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740 requires an enterprise to disclose the nature of uncertain tax positions taken, if any, when filing its income tax return utilizing a two-step process to recognize and measure any uncertain tax positions taken. The Company recognizes a tax benefit only if it is more likely than not the position would be sustained in a tax examination, with a tax examination being presumed to occur. No tax benefit will be recorded on tax positions not meeting the more likely than not test. ASC 740 applies to nonpublic enterprises for periods beginning after December 15, 2008. Management adopted ASC 740 effective July 1, 2009. The adoption of ASC 740 did not have a material impact on the financial statements. Based on its evaluation, the Organization has concluded that there are no uncertain tax positions requiring recognition in its financial statements. The Organization's evaluation was performed for all federal and state tax periods still subject to examination.

NOTE 2 - DONATED MATERIALS AND SERVICES

Since the Organization is on the cash basis of accounting, donated materials and services are not recorded in the financial statements. However, information related to donated materials and services is as follows:

The Organization's office space and equipment has been donated by the South Bend Community School Corporation. The estimated rental value of this facility for each of the years ended June 30, 2010 and 2009 was \$3,700. The value of legal and accounting services donated during the years ended June 30, 2010 and 2009 was \$2,180 and \$1,615, respectively. The value of these services is determined based on the amount of time spent at the individual's hourly rate.

NOTE 3 - FUNDS FUNCTIONING AS PERMANENT ENDOWMENT

The Organization has entered into an agreement with the Community Foundation of St. Joseph County, Inc. in which the Foundation established a fund designated as "The Public Education Foundation Fund" to receive gifts for the purpose of providing support to the Organization. The Organization expects to receive the income earned on the assets held in perpetuity, but will never receive the assets held in the fund. Distributions from the fund are currently based upon the Community Foundation's spending policy. Annual distributions from the fund are reported as investment income that increase unrestricted net assets. Net realized and unrealized gains (losses) are reported as changes in unrestricted net assets in funds functioning as permanent endowment. The fund agreement provides the Community Foundation the power to modify any restrictions or conditions on the distribution of funds to any specified charitable organizations if such restrictions become, in effect, unnecessary, incapable of fulfillment or consistent with the charitable need of the area served by the Community Foundation.

The endowment funds are held by the Community Foundation of St. Joseph County, Inc. The amounts below represent contributions made to the permanent endowment by the Organization from unrestricted assets and appreciation on those monies. Additionally, donors will contribute directly to the permanent endowment or make restricted donations to the Organization for the permanent endowment. These contributions are not considered to be assets of the Organization, but the Organization receives its annual distribution, as described above, based on the total value of the permanent endowment.

THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2010 and 2009

The total market value of the Organization's permanent endowment held and managed by the Community Foundation as of June 30, 2010 was \$339,587, of which \$327,079 was contributed to the permanent endowment directly by donors or through restricted donations, or is appreciation (depreciation) on those monies. At June 30, 2009, the total market value of the permanent fund endowment was \$311,391 of which \$299,922 was contributed directly by donors or through restricted donations, or is appreciation (depreciation) on those monies. The annual distribution from the permanent endowment received during the years ended June 30, 2010 and 2009, was \$18,618 and \$19,493, respectively.

During March, 2009 the Organization entered into seven separate agreements with the Community Foundation of St. Joseph County, Inc. in which the Public Education Foundation, Inc. established the following funds:

1. The Public Education Foundation Teacher Grant Endowment Fund
2. David F. Hendrix, Ed.D. Teacher Grant Fund
3. Roland Kelly Language Arts Teacher Grant Fund
4. M. Mendel Piser Teacher Grant Fund
5. Karen Schirmer Fine Arts Teacher Grant Fund
6. Mark Tulchinsky Memorial Teacher Grant Fund
7. Dr. James Wilson Teacher Grant Fund

Additionally, in January 2010, the Organization entered into an additional agreement with the Community Foundation of St. Joseph County, Inc. in which the Public Education Foundation, Inc. established the following fund:

1. James D. Metz Fine Arts Teacher Grant Fund

The funds were established to receive gifts for the purpose of providing support to the teacher grant program of the Organization. The Organization expects to receive the income earned on the assets held in perpetuity, but will never receive the assets held in the funds. Distributions from the funds are currently based upon the Community Foundation's spending policy. Annual distributions from the funds are reported as investment income that increases unrestricted net assets. Net realized and unrealized gains (losses) are reported as changes in unrestricted net assets in funds functioning as permanent endowment. The fund agreements convey variance power to the Community Foundation.

The endowment funds are held by the Community Foundation of St. Joseph County, Inc. The amounts below represent contributions made to the permanent endowment by the Organization from unrestricted assets and appreciation (depreciation) on those monies. Additionally, donors will contribute directly to the permanent endowments or make restricted donations to the Organization for the permanent endowments. These contributions are not considered to be assets of the Organization, but the Organization receives its annual distribution, as described above, based on the total value of the permanent endowments. The total market value of the Organization's permanent endowments held and managed by the Community Foundation as of June 30, 2010 was \$64,114, of which \$32,643 was contributed to the permanent endowments directly by donors or through restricted donations, or is appreciation (depreciation) on those monies. At June 30, 2009, the total market value of the permanent endowment funds was \$41,329 of which \$28,402 was contributed directly by donors or through restricted donations, or is appreciation (depreciation) on those monies. There were no distributions for the years ended June 30, 2010 or 2009.

Net assets were board designated for the following purposes at June 30:

	<u>2010</u>	<u>2009</u>
Funds functioning as permanent endowments	43,979	24,396

THE PUBLIC EDUCATION FOUNDATION, INC.South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose:

	<u>2010</u>	<u>2009</u>
Hay, Harrison, Madison, and Wilson Primary School Reading Program	36,203	0
Lincoln Primary School Reading Program	22,858	142,181
Coquillard Muessel Primary School Reading Program	54,809	0
Wenger & Porter Athletic Grant	200	0
Total Temporarily Restricted Net Assets	114,070	142,181

Net assets were released from donor restrictions by incurring expenses satisfying the purpose of the restrictions as follows:

Hay, Harrison, Madison, and Wilson Primary School Reading Program	91,417	66,748
Lincoln Primary School Reading Program	119,323	20,235
Coquillard Muessel Primary School Reading Program	5,191	0
Forums and seminars	15,097	24,116
Total Net Assets Released from Restrictions	231,028	111,099

NOTE 5 - PERMANENTLY RESTRICTED NET ASSETS

The Public Education Foundation, Inc. is a beneficiary of the James M. Wilson, M.D. Charitable Remainder Unitrust. At the instruction of Dr. Wilson, the trustee distributed the principal and income of the trust to the Organization. Stipulations of the gift dictated that the proceeds were to be used to establish a permanent endowment, which has been established at Indiana Trust and Investment Management Company. The Organization is guaranteed to receive an annual distribution equal to 5% of the fair market value of the account as of each December 31. The amount shall be paid annually from income and, to the extent that income is not sufficient, from principal. Any income of the endowment for a taxable year in excess of the annual payment shall be added to principal. The distribution received during the years ended June 30, 2010 and 2009 was \$62,860 and \$72,189, respectively. Distributions were expended in the year received. The Organization incurred investment expenses within the funds of \$6,023 and \$5,707 for the years ended June 30, 2010 and 2009, respectively. The Organization also retains the right to change investment managers at its discretion. The funds are classified as permanently restricted since the Organization will not receive any of the principal currently or in future years and income in excess of the 5% distribution has been permanently restricted by the donor.

A summary of the endowment account is as follows at June 30:

	<u>2010</u>	<u>2009</u>
Cost and reinvested earnings of money market funds	3,849	13,016
Cost and reinvested earnings of marketable equity securities	1,249,334	1,329,310
Unrealized loss	(103,180)	(283,996)
Fair market value	1,150,003	1,058,330

THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 6 - ENDOWMENTS

The Organization's endowments consist of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the State Prudent Management Investment Fiduciary Act (SPMIFA) as requiring realized and unrealized gains of permanently restricted net assets (if any) to be retained in a restricted net asset classification until appropriated by the Board for expenditure unless explicitly stated otherwise in the gift instrument. In addition, the Board has interpreted SPMIFA to appropriate as much of net appreciation of permanently restricted net assets (if any) as is prudent considering the duration and preservation of the endowment fund, the purposes of the Organization and endowment fund, general economic conditions, effect of inflation or deflation, expected total return on its investments, and the investment policy of the Organization.

On an annual basis, the Organization's endowment funds will be used to support its operations under the specified terms of underlying endowment and funding agreements, as defined. The funds functioning as permanent endowments funding agreements call for 5% of a defined average balance to be distributed for operational and grant making purposes. Earnings on the Organization's permanent endowment may be appropriated for expenditure by the board of directors.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to support a portion of operations under the specified terms of the underlying endowment agreements, while seeking to preserve the endowment assets in perpetuity. In establishing this policy, the Organization considered the long term expected return on its endowments. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity.

The Organization has implemented an investment strategy for its endowment assets. Board designated funds are held at the Community Foundation of St. Joseph County (CFSJC) which has primary responsibility over the investment philosophy utilized. The CFSJC's June 30, 2010 asset allocation philosophy includes the following asset classes: domestic (small and large cap) and global equities, fixed income securities, hedge funds and other investments as defined. Permanently endowed funds are held at Indiana Trust and Investment Management Company (ITMC). ITMC has primary responsibility over the investment philosophy utilized. ITMC's June 30, 2010 asset allocation philosophy includes the following asset classes: bonds, domestic (small and large cap) stocks, international securities, real estate, and other investments as defined.

The following is a summary of endowment net asset composition by type of fund at June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Funds functioning as a permanent endowment	43,979	0	0	43,979
Permanent endowment	0	0	1,150,003	1,150,003
Endowment net assets, end of year	43,979	0	1,150,003	1,193,982

THE PUBLIC EDUCATION FOUNDATION, INC.South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2010 and 2009

The following is a summary of the changes in endowment net assets for the year ended June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	24,396	0	1,058,330	1,082,726
Contributions	17,246	0	0	17,246
Interest and dividends, net of expenses	0	0	23,586	23,586
Realized and unrealized gains	2,337	0	130,947	133,284
Appropriation of endowment assets for expenditures	0	0	(62,860)	(62,860)
Endowment net assets, end of year	43,979	0	1,150,003	1,193,982

The following is a summary of endowment net asset composition by type of fund at June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Funds functioning as a permanent endowment	24,396	0	0	24,396
Permanent endowment	0	0	1,058,330	1,058,330
Endowment net assets, end of year	24,396	0	1,058,330	1,082,726

The following is a summary of the changes in endowment net assets for the year ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	14,738	0	1,451,097	1,465,835
Contributions	12,927	0	0	12,927
Interest and dividends, net of expenses	0	0	29,515	29,515
Realized and unrealized losses	(3,269)	0	(350,093)	(353,362)
Appropriation of endowment assets for expenditures	0	0	(72,189)	(72,189)
Endowment net assets, end of year	24,396	0	1,058,330	1,082,726

The Organization does not have any planned appropriation for expenditures at June 30, 2010 and did not make any appropriations at June 30, 2009.

THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE 7 - FAIR VALUE MEASUREMENTS

Effective July 1, 2008 the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Basis of Fair Value Measurement

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following table presents the Organization's fair value hierarchy for the Organization's investment assets and liabilities at fair value, as of June 30, 2010:

	<u>Fair Value</u>	Quoted Prices In Active Markets For Identical Assets (Level 1)	Unobservable Inputs (Level 3)
Funds functioning as permanent endowment	43,979	0	43,979
Permanent endowment	1,150,003	1,150,003	0
Total	1,193,982	1,150,003	43,979

The following table presents the Organization's fair value hierarchy for the Organization's investment assets and liabilities at fair value, as of June 30, 2009:

	<u>Fair Value</u>	Quoted Prices In Active Markets For Identical Assets (Level 1)	Unobservable Inputs (Level 3)
Funds functioning as permanent endowment	24,396	0	24,396
Permanent endowment	1,058,330	1,058,330	0
Total	1,082,726	1,058,330	24,396

THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2010 and 2009

The following table includes a rollforward of the amounts for the period July 1 through June 30 for the investments classified in Level 3:

	Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3)	
	<u>2010</u>	<u>2009</u>
Beginning Balance at July 1	24,396	14,738
Contributions	17,246	12,927
Realized and unrealized gains (losses)	<u>2,337</u>	<u>(3,269)</u>
Ending Balance at June 30	<u>43,979</u>	<u>24,396</u>

The change in net assets related to funds functioning as permanent endowments at June 30, 2010 includes unrealized gains of \$2,337. The change in net assets related to funds functioning as permanent endowments at June 30, 2009 includes unrealized losses of \$(3,269). These amounts are included in Unrealized gain (loss) from permanent endowments as shown on the Statements of Support, Revenue, Expenses and Changes in Net Assets Cash Basis.

NOTE 8 - CONCENTRATIONS

The Organization receives a substantial amount of its operating support from St. Joseph County. Any significant reduction in the level of this support could have an effect on the Organization's programs.

NOTE 9 - SUBSEQUENT EVENTS

The Subsequent Events Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 855 establishes general standards for non-public entities of accounting for and disclosing events that occur after the balance sheet date but before financial statements are available to be issued. Financial statements are considered available to be issued when they are complete in a form and format that complies with accounting principles generally accepted in the United States of America and all approvals necessary for issuance have been obtained. Accordingly, management has evaluated events or transactions that occurred after the most recent balance sheet date of June 30, 2010 through October 26, 2010, the date the financial statements were available to be issued. Management is not required to and has not evaluated events or transactions that occurred after October 26, 2010. No events or transactions occurred in the mandatory evaluation period requiring recognition or disclosure in the financial statements.