



THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

ANNUAL REPORT
June 30, 2009



Kruggel, Lawton & Company, LLC

Accountants and Advisors

South Bend, Indiana

THE PUBLIC EDUCATION FOUNDATION, INC.

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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 liabilities and net assets-cash basis of The Public Education Foundation, Inc. as of June 30, 2009 and 2008, 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 liabilities and net assets of The Public Education Foundation, Inc. as of June 30, 2009 and 2008, 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

South Bend, Indiana
October 21, 2009

THE PUBLIC EDUCATION FOUNDATION, INC.South Bend, Indiana

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

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	157,135	60,912
Total Current Assets	157,135	60,912
OTHER ASSETS		
Funds functioning as permanent endowments	24,396	14,738
Permanent endowment	1,058,330	1,451,097
Total Other Assets	1,082,726	1,465,835
TOTAL ASSETS	1,239,861	1,526,747
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accrued payroll withholdings	(589)	768
Total Current Liabilities	(589)	768
TOTAL LIABILITIES	(589)	768
NET ASSETS		
Unrestricted		
General operating	15,543	53,727
Funds functioning as permanent endowments	24,396	14,738
Temporarily restricted	142,181	6,417
Permanently restricted	1,058,330	1,451,097
Total Net Assets	1,240,450	1,525,979
TOTAL LIABILITIES AND NET ASSETS	1,239,861	1,526,747

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, 2009 and 2008

UNRESTRICTED NET ASSETS	<u>2009</u>	<u>2008</u>
GENERAL OPERATING		
Public Support		
Individual and corporate contributions	75,363	36,886
Distributions from permanent endowments	91,682	102,615
Total Public Support	167,045	139,501
Revenue		
Indiana Education license plates	6,750	4,425
Interest	3,328	14,097
Change in unrealized gain in equity securities	(3,001)	(9,665)
Other revenues	0	85
Total Revenue	7,077	8,942
Net assets released from restrictions:		
Hay, Harrison, Madison and Wilson Primary School Reading Program	66,748	104,454
Lincoln Primary School Reading Program	20,235	0
Forums and seminars	24,116	20,986
Total Net Assets Released from Restrictions	111,099	125,440
TOTAL SUPPORT AND REVENUE FOR UNRESTRICTED PURPOSES	285,221	273,883
Expenses		
Program services	253,123	399,789
Supporting services:		
Management and general	35,615	30,914
Fundraising	21,740	28,541
Total Expenses	310,478	459,244
DECREASE FROM GENERAL OPERATING ACTIVITIES	(25,257)	(185,361)
FUNDS FUNCTIONING AS PERMANENT ENDOWMENTS		
Unrealized loss from permanent endowments	(3,269)	(858)
DECREASE IN FUNDS FUNCTIONING AS PERMANENT ENDOWMENTS	(3,269)	(858)
DECREASE IN UNRESTRICTED NET ASSETS	(28,526)	(186,219)

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, 2009 and 2008

TEMPORARILY RESTRICTED NET ASSETS

Hay, Harrison, Madison and Wilson Primary School Reading Program	66,748	73,308
Lincoln Primary School Reading Program	162,150	0
Forums and seminars	17,965	20,330
Total Contributions to Temporarily Restricted Net Assets	246,863	93,638
Net assets released from restrictions	(111,099)	(125,440)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	135,764	(31,802)

PERMANENTLY RESTRICTED NET ASSETS

Investment earnings, net of expenses	29,515	157,364
Distributions	(72,189)	(82,413)
Unrealized loss	(350,093)	(265,357)
DECREASE IN PERMANENTLY RESTRICTED NET ASSETS	(392,767)	(190,406)

DECREASE IN NET ASSETS (285,529) (408,427)**NET ASSETS AT BEGINNING OF YEAR** 1,525,979 1,934,406**NET ASSETS AT END OF YEAR** 1,240,450 1,525,979

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	20,666	0	0	20,666
Other grants	2,863	0	0	2,863
Thank-a-Teacher	1,098	0	0	1,098
School projects	147,993	0	0	147,993
Forums and seminars	25,349	0	0	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
	<hr/> 253,123	<hr/> 35,615	<hr/> 21,740	<hr/> 310,478 <hr/>

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, 2008

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising Expense</u>	<u>Total</u>
Wages and contracted labor	38,662	12,888	12,888	64,438
Payroll taxes	2,209	737	737	3,683
Grants to teachers	17,049	0	0	17,049
Other grants	19,520	0	0	19,520
Thank-a-Teacher	3,500	0	0	3,500
School projects	288,358	0	0	288,358
Forums and seminars	20,986	0	0	20,986
Printing	231	1,090	11,064	12,385
Postage	0	606	851	1,457
Bank and other fees	0	657	0	657
Professional fees	0	6,659	0	6,659
Insurance	0	2,062	0	2,062
Office supplies and expense	0	1,899	0	1,899
Professional development	0	928	0	928
Advertising	6,175	0	0	6,175
Strategic planning	0	300	0	300
Newsletters	1,679	0	1,679	3,358
Dues and subscriptions	0	1,850	0	1,850
Miscellaneous	1,420	1,238	1,322	3,980
	<hr/> 399,789	<hr/> 30,914	<hr/> 28,541	<hr/> 459,244 <hr/>

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, 2009 and 2008

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.

CONTRIBUTIONS

All contributions 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. When a temporary restriction expires, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The primary source of support is individual and corporate contributions.

FINANCIAL STATEMENT PRESENTATION

The Organization adheres to Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations* and its financial statements include information regarding donor-imposed restrictions. Thus, the accompanying financial statements report information regarding its assets, liabilities, net assets, support, revenue and expenses according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted 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.

THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2009 and 2008

FINANCIAL STATEMENT PRESENTATION (CONTINUED)

The Organization has adopted FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*. This pronouncement 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. This FSP 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 state of Indiana adopted UPMIFA in 2007. This adoption resulted in no effect on total net assets.

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.

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 and classified by the Internal Revenue Service as other than a private foundation.

The Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes ("FIN 48")*, in July 2006. FIN 48 will require the Organization to disclose the nature of uncertain tax positions, if any, taken when filing its corporate income tax returns. The effective date for the adoption of this standard has been delayed and management has elected to defer the application of FIN 48. The Organization will continue to follow FAS 5, *Accounting for Contingencies*, until it adopts FIN 48.

FAIR VALUE MEASUREMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies to reporting periods beginning after November 15, 2007. The Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157) effective July 1, 2008. The adoption of SFAS 157 did not have a material impact on the financial statements of the Company. In accordance with *Financial Accounting Standards Board Staff Position (FSP) No. 157-2*, (Effective Date of FASB Statement No. 157), the Company will delay application of SFAS 157 for non-financial assets and non financial liabilities until July 1, 2009. SFAS No. 157 applies to all assets and liabilities that are measured and reported on a fair value basis. The adoption of the remaining provisions of SFAS No. 157 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2009 and 2008

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, 2009 and 2008 was \$3,700. The value of legal and accounting services donated during the years ended June 30, 2009 and 2008 was \$1,615 and \$3,475, 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 based upon the Community Foundation's spending policy which currently provides for an approximate annual spending rate of five percent per year of the market value of the fund. 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 board designated unrestricted net assets.

The Organization has endowment funds that are held by the Community Foundation of St. Joseph County, Inc. The above amounts 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 total market value of the Organization's permanent endowment held and managed by the Community Foundation as of June 30, 2009 was \$311,391, of which \$299,922 was contributed to the permanent endowment directly by donors or through restricted donations, or is appreciation (depreciation) on those monies. At June 30, 2008, the total market value of the permanent fund endowment was \$399,967 of which \$385,229 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, 2009 and 2008, was \$19,493 and \$20,202, respectively.

THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE 3 - FUNDS FUNCTIONING AS PERMANENT ENDOWMENT (CONTINUED)

During March, 2009 the Organization 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 Teacher Grant Fund" 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 fund. Distributions from the fund are based upon the Community Foundation's spending policy which currently provides for an approximate annual spending rate of five percent per year of the market value of the fund. 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 board designated unrestricted net assets. The endowment funds are held by the Community Foundation of St. Joseph County, Inc. 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 total market value of the Organization's permanent endowment held and managed by the Community Foundation as of June 30, 2009 was \$41,329, of which \$28,402 was contributed to the permanent endowment directly by donors or through restricted donations, or is appreciation (depreciation) on those monies.

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

	<u>2009</u>	<u>2008</u>
Funds functioning as permanent endowments	24,396	14,738

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose:

	<u>2009</u>	<u>2008</u>
Lincoln Primary School Reading Program	141,915	0
Swanson School	266	266
Forums and seminars	0	6,151
Total Temporarily Restricted Net Assets	142,181	6,417

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	66,748	104,454
Lincoln Primary School Reading Program	20,235	0
Forums and seminars	24,116	20,986
Total Net Assets Released from Restrictions	111,099	125,440

THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2009 and 2008

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, 2009 and 2008 was \$72,189 and \$82,413, 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 the income has been restricted by the donor.

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

	<u>2009</u>	<u>2008</u>
Cost and reinvested earnings of money market funds	13,016	3,750
Cost and reinvested earnings of marketable equity securities	1,329,310	1,580,956
Unrealized loss	(283,996)	(133,609)
Fair market value	1,058,330	1,451,097

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 purposes. Distributions from the fund are based upon the Community Foundation's spending policy which currently provides for an approximate annual spending rate of five percent per year of the market value of the fund.

THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE 6 - ENDOWMENTS (CONTINUED)

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, 2009 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, 2009 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, 2009:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>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>	Temporarily <u>Restricted</u>	Permanently <u>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 following is a summary of endowment net asset composition by type of fund at June 30, 2008:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Totals</u>
Funds functioning as a permanent endowment	14,738	0	0	14,738
Permanent endowment	0	0	1,451,097	1,451,097
Endowment net assets, end of year	14,738	0	1,451,097	1,465,835

THE PUBLIC EDUCATION FOUNDATION, INC.

South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE 6 - ENDOWMENTS (CONTINUED)

The following is a summary of the changes in endowment net assets for the year ended June 30, 2008:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	15,596	0	1,641,503	1,657,099
Interest and dividends, net of expenses	0	0	157,364	157,364
Realized and unrealized losses	(858)	0	(265,357)	(266,215)
Appropriation of endowment assets for expenditures	0	0	(82,413)	(82,413)
Endowment net assets, end of year	14,738	0	1,451,097	1,465,835

The Organization does not have any planned appropriation for expenditures, for the year ending June 30, 2010.

NOTE 7 - FAIR VALUE INSTRUMENTS

Effective July 1, 2008 the Organization adopted FASB Statement No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 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 SFAS No. 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

THE PUBLIC EDUCATION FOUNDATION, INC.South Bend, Indiana

NOTES TO CASH BASIS FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE 7 - FAIR VALUE INSTRUMENTS (CONTINUED)

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 <u>(Level 1)</u>	Direct or Indirect Observable Inputs Other than Level 1 <u>(Level 2)</u>
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 following table presents the Organization's fair value hierarchy for the Organization's investment assets and liabilities at fair value, as of June 30, 2008:

	<u>Fair Value</u>	Quoted Prices In Active Markets For Identical Assets <u>(Level 1)</u>	Direct or Indirect Observable Inputs Other than Level 1 <u>(Level 2)</u>
Funds functioning as permanent endowment	14,738	0	14,738
Permanent endowment	1,451,097	1,451,097	0
Total	1,465,835	1,451,097	14,738

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

In May 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 165 Subsequent Events, requiring non-public entities to evaluate subsequent events through the date that the financial statements are available to be issued. Available to be issued is defined as the date the financial statements are 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 from management, the board of directors, and/or significant shareholders. Accordingly the date to which events occurring after June 30, 2009, the date of the most recent balance sheet, have been evaluated for possible adjustments to the financial statements or disclosures is October 21, 2009, which is the date on which the financial statements were available to be issued.