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**S O U T H**  
**B E N D** 

EDUCATION FOUNDATION

ANNUAL REPORT  
June 30, 2016



Elkhart, Indiana

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**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
South Bend, Indiana

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ANNUAL REPORT  
June 30, 2016

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Assets and Net Assets - Cash Basis	3
Statements of Support, Revenue, and Expenses - Cash Basis	4 - 5
Statements of Expenses by Functional and Natural Classification - Cash Basis	6 - 7
Notes to Cash Basis Financial Statements	8 - 17



## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of The Public Education Foundation, Inc. d/b/a South Bend Education Foundation, which comprise the statements of assets and net assets - cash basis as of June 30, 2016 and 2015, and the related statements of support, revenue, and expenses - cash basis and the statements of expenses by functional and natural classification - cash basis for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting as described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

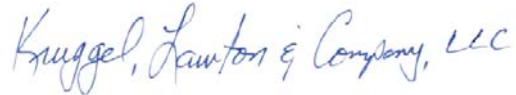
## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets of The Public Education Foundation, Inc. d/b/a South Bend Education Foundation as of June 30, 2016 and 2015, and its support, revenue, and expenses for the years then ended in accordance with the cash basis of accounting as described in Note 1.

## **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Respectfully submitted,

Handwritten signature in blue ink that reads "Kruggel, Lawton & Company, LLC".

Certified Public Accountants

Elkhart, Indiana  
September 2, 2016

**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
 South Bend, Indiana

**STATEMENTS OF ASSETS AND NET ASSETS**  
**CASH BASIS**  
 June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	86,698	134,643
Total Current Assets	86,698	134,643
<b>OTHER ASSETS</b>		
Funds functioning as permanent endowments	368,988	305,326
Permanent endowment	1,340,392	1,435,768
Total Other Assets	1,709,380	1,741,094
<b>TOTAL ASSETS</b>	<b>1,796,078</b>	<b>1,875,737</b>

**NET ASSETS**

<b>NET ASSETS</b>		
Unrestricted		
General operating	55,449	111,725
Funds functioning as permanent endowments	370,568	307,433
Temporarily restricted	29,669	20,811
Permanently restricted	1,340,392	1,435,768
Total Net Assets	1,796,078	1,875,737
<b>TOTAL NET ASSETS</b>	<b>1,796,078</b>	<b>1,875,737</b>

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

**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
South Bend, Indiana

**STATEMENTS OF SUPPORT, REVENUE, AND EXPENSES**  
**CASH BASIS**

For the Years Ended June 30, 2016 and 2015

<b>UNRESTRICTED NET ASSETS</b>	<u>2016</u>	<u>2015</u>
<b>GENERAL OPERATING</b>		
Public Support		
Individual and corporate contributions	167,614	311,718
Grant revenue	0	1,900
Annual luncheon	21,042	545
Mentoring breakfast and luncheon	615	1,490
Distributions from permanent endowments	93,929	96,620
<b>Total Public Support</b>	<b>283,200</b>	<b>412,273</b>
Revenue		
Indiana Education license plates	2,100	2,325
Interest	33	5
Unrealized loss on investments	(221)	(71)
Other revenues	0	27
<b>Total Revenue</b>	<b>1,912</b>	<b>2,286</b>
Net assets released from restrictions:		
Restrictions satisfied by payments	180,181	64,166
<b>Total Net Assets Released from Restrictions</b>	<b>180,181</b>	<b>64,166</b>
Net assets reclassified:		
Net assets board designated for permanent endowment	(69,583)	(60,440)
<b>Total Net Assets Reclassified</b>	<b>(69,583)</b>	<b>(60,440)</b>
<b>TOTAL SUPPORT AND REVENUE FOR UNRESTRICTED PURPOSES</b>	<b>395,710</b>	<b>418,285</b>
Expenses		
Program services	209,430	192,584
Supporting services:		
Management and general	66,904	51,675
Fundraising	175,652	117,420
<b>Total Expenses</b>	<b>451,986</b>	<b>361,679</b>
<b>INCREASE (DECREASE) FROM GENERAL OPERATING ACTIVITIES</b>	<b>(56,276)</b>	<b>56,606</b>
<b>FUNDS FUNCTIONING AS PERMANENT ENDOWMENTS</b>		
Board designated Community Foundation contributions	69,583	60,440
Unrealized gain (loss) from permanent endowments	(6,448)	1,197
<b>INCREASE IN FUNDS FUNCTIONING AS PERMANENT ENDOWMENTS</b>	<b>63,135</b>	<b>61,637</b>
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	<b>6,859</b>	<b>118,243</b>

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

**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
 South Bend, Indiana

**STATEMENTS OF SUPPORT, REVENUE, AND EXPENSES**  
**CASH BASIS (CONTINUED)**

For the Years Ended June 30, 2016 and 2015

<b>TEMPORARILY RESTRICTED NET ASSETS</b>	<u>2016</u>	<u>2015</u>
Remaining 8 SBCSC Primary Centers Reading Program	0	12,821
Mentoring Program	135,820	11,780
SBCSC Math Program	20,000	20,000
Character Education Program	32,253	20,442
Casaday Collection	966	3,789
Total Contributions to Temporarily Restricted Net Assets	189,039	68,832
Net assets released from restrictions	(180,181)	(64,166)
<b>INCREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>8,858</b>	<b>4,666</b>
<b>PERMANENTLY RESTRICTED NET ASSETS</b>		
Investment earnings, net of expenses	57,206	70,869
Distributions	(69,202)	(74,052)
Realized and unrealized losses	(83,380)	(52,262)
<b>DECREASE IN PERMANENTLY RESTRICTED NET ASSETS</b>	<b>(95,376)</b>	<b>(55,445)</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(79,659)</b>	<b>67,464</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>1,875,737</b>	<b>1,808,273</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>1,796,078</b>	<b>1,875,737</b>

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

**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
 South Bend, Indiana

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

For the Year Ended June 30, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising Expense</u>	<u>Total</u>
Wages and contracted labor	70,397	23,466	23,466	117,329
Payroll taxes	5,385	1,795	1,795	8,975
Grants to teachers	26,489	0	0	26,489
Grants to schools	12,727	0	0	12,727
Thank-a-Teacher	542	0	0	542
School projects	90,768	0	0	90,768
Forums and seminars	0	0	113,709	113,709
Truck pull	0	0	22,885	22,885
Printing	644	3,454	10,981	15,079
Postage	1,483	655	1,919	4,057
Bank and other fees	0	2,783	0	2,783
Professional fees	0	10,685	0	10,685
Insurance	0	2,643	0	2,643
Office supplies and expense	0	2,216	0	2,216
Professional development	0	5,732	0	5,732
Advertising and marketing	571	2,792	897	4,260
Dues and subscriptions	0	2,856	0	2,856
Miscellaneous	424	7,827	0	8,251
	<u>209,430</u>	<u>66,904</u>	<u>175,652</u>	<u>451,986</u>

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



**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
 South Bend, Indiana

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

For the Year Ended June 30, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising Expense</u>	<u>Total</u>
Wages and contracted labor	63,795	21,265	21,265	106,325
Payroll taxes	4,880	1,627	1,627	8,134
Grants to teachers	23,015	0	0	23,015
Grants to schools	18,209	0	0	18,209
Thank-a-Teacher	705	0	0	705
School projects	73,642	0	0	73,642
Forums and seminars	0	0	62,532	62,532
Truck pull	0	0	19,739	19,739
Printing	1,094	2,180	9,489	12,763
Postage	438	941	390	1,769
Bank and other fees	0	1,715	0	1,715
Professional fees	0	12,243	700	12,943
Insurance	0	1,909	0	1,909
Office supplies and expense	0	1,084	0	1,084
Professional development	0	1,630	0	1,630
Advertising and marketing	1,068	1,386	1,678	4,132
Contract labor	5,738	0	0	5,738
Dues and subscriptions	0	1,538	0	1,538
Miscellaneous	0	4,157	0	4,157
	<u>192,584</u>	<u>51,675</u>	<u>117,420</u>	<u>361,679</u>

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

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**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
South Bend, Indiana

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**NOTES TO CASH BASIS FINANCIAL STATEMENTS**

June 30, 2016 and 2015

**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**

The Organization adheres to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, which sets standards for reporting on financial statements of not-for-profit organizations. ASC 958-205 requires the classification and presentation of net assets in three categories: unrestricted, temporarily restricted, 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.

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.

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**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
South Bend, Indiana

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**NOTES TO CASH BASIS FINANCIAL STATEMENTS**  
June 30, 2016 and 2015

FAIR VALUE MEASUREMENTS

Management accounts for all assets and liabilities that are measured and reported on a fair value basis under the Fair Value Measurements and Disclosures Topic of FASB ASC 820. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The framework for measuring fair value establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

CASH AND CASH EQUIVALENTS

The Organization 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 the respective limits by the FDIC.

Temporarily restricted cash classified as a current asset consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Mentoring Program	29,669	7,708
SBCSC Math Program	0	9,811
Casaday Collection	0	3,292
<b>Total Temporarily Restricted Cash</b>	<b>29,669</b>	<b>20,811</b>

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, and Expenses - Cash Basis as net assets released from restrictions. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions are received. 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, and Expenses - Cash Basis. Accordingly, certain costs have been allocated between program and supporting service expenses.

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**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
South Bend, Indiana

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**NOTES TO CASH BASIS FINANCIAL STATEMENTS**

June 30, 2016 and 2015

**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 Income Taxes Topic of FASB ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. ASC 740 requires an organization 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 Organization 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. Interest and penalties accrued or incurred, if any, as a result of applying ASC 740 will be recorded to interest expense and other expense, respectively.

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. The Organization's 2012 through 2014 federal and state exempt organization returns remain subject to examination by the IRS and the state taxing authority.

**ADVERTISING COSTS**

Various costs relating to advertising are considered period costs and are therefore expensed as incurred. Advertising costs were \$4,260 and \$4,132 for the years ended June 30, 2016 and 2015, respectively.

**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, 2016 and 2015 was approximately \$5,600. The value of accounting services donated during the years ended June 30, 2016 and 2015 was \$7,374 and \$7,108, respectively. The value of these services is determined based on the amount of time spent at the individuals' 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" for the purpose of providing support to the Organization. The Organization has also entered into several other agreements to establish teacher grant funds for the purpose of receiving gifts to provide support to the teacher grant program. 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 increase unrestricted net assets. Net realized and unrealized gains (losses) are reported as changes in unrestricted net assets in funds functioning as permanent endowment.

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**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
South Bend, Indiana

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**NOTES TO CASH BASIS FINANCIAL STATEMENTS**  
June 30, 2016 and 2015

The fund agreements provide 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 inconsistent with the charitable need of the area served by the Community Foundation.

The amounts below represent contributions made to the funds functioning as permanent endowments by the Organization from unrestricted assets and appreciation (depreciation) on those monies. Additionally, donors will contribute directly to the funds or make restricted donations to the Organization for the funds. 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 funds functioning as permanent endowments.

The total market value of "The Public Education Foundation Fund" held and managed by the Community Foundation as of June 30, 2016 was \$526,390, of which \$468,821 was contributed to the fund directly by donors or through restricted donations, or is appreciation (depreciation) on those monies. At June 30, 2015, the total market value of the endowment was \$558,267, of which \$496,650 was contributed directly by donors or through restricted donations, or is appreciation (depreciation) on those monies. The annual distribution from the endowment received during the years ended June 30, 2016 and 2015, was \$24,727 and \$22,568, respectively.

The total market value of the Organization's teacher grant endowment funds held and managed by the Community Foundation as of June 30, 2016 was \$423,189 of which \$111,770 was contributed to the teacher grant funds directly by donors or through restricted donations, or is appreciation (depreciation) on those monies. At June 30, 2015, the total market value of the endowment funds was \$325,572 of which \$81,863 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, 2016 or 2015.

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

	<u>2016</u>	<u>2015</u>
Owed from general fund	1,580	2,107
Funds functioning as permanent endowments	368,988	305,326
Endowment net assets, end of year	<u>370,568</u>	<u>307,433</u>

**NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purpose:

	<u>2016</u>	<u>2015</u>
Mentoring Program	29,669	7,708
SBCSC Math Program	0	9,811
Casaday Collection	0	3,292
Total Temporarily Restricted Net Assets	<u>29,669</u>	<u>20,811</u>

**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
 South Bend, Indiana

**NOTES TO CASH BASIS FINANCIAL STATEMENTS**  
 June 30, 2016 and 2015

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

Remaining 8 SBCSC Primary Centers Reading Program	0	18,601
Mentoring Program	113,859	4,072
SBCSC Math Program	29,811	20,529
Character Education Program	32,253	20,442
Casaday Collection	4,258	522
<b>Total Net Assets Released from Restrictions</b>	<b>180,181</b>	<b>64,166</b>

**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, 2016 and 2015 was \$69,202 and \$74,052, respectively. Distributions were expended in the year received.

The Organization incurred investment expenses within the funds of \$6,877 and \$7,387 for the years ended June 30, 2016 and 2015, respectively. These expenses are included in "Investment earnings, net of expenses" on the Statements Of Support, Revenue, and Expenses - Cash Basis under permanently restricted net assets. The Organization also retains the right to change investment managers at its discretion.

The funds are classified as permanently restricted since the Organization will never receive the principal unless it is distributed as part of the annual distribution as a result of insufficient earnings as described above 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>2016</u>	<u>2015</u>
Cost and reinvested earnings of money market funds	3,908	520
Cost and reinvested earnings of marketable equity securities	1,214,564	1,223,715
Unrealized gains	121,920	211,533
<b>Fair market value</b>	<b>1,340,392</b>	<b>1,435,768</b>

**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
 South Bend, Indiana

**NOTES TO CASH BASIS FINANCIAL STATEMENTS**

June 30, 2016 and 2015

**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, 2016 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, 2016 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, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Funds functioning as a permanent endowment	370,568	0	0	370,568
Permanent endowment	0	0	1,340,392	1,340,392
<b>Endowment net assets, end of year</b>	<b>370,568</b>	<b>0</b>	<b>1,340,392</b>	<b>1,710,960</b>

**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
 South Bend, Indiana

**NOTES TO CASH BASIS FINANCIAL STATEMENTS**

June 30, 2016 and 2015

The following is a summary of the changes in endowment net assets for the year ended June 30, 2016:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	307,433	0	1,435,768	1,743,201
Contributions	69,583	0	0	69,583
Interest and dividends, net of expenses	0	0	57,206	57,206
Realized and unrealized gains (losses)	(6,448)	0	(83,380)	(89,828)
Appropriation of endowment assets for expenditures	0	0	(69,202)	(69,202)
<b>Endowment net assets, end of year</b>	<b>370,568</b>	<b>0</b>	<b>1,340,392</b>	<b>1,710,960</b>

The following is a summary of endowment net asset composition by type of fund at June 30, 2015:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Totals</u>
Funds functioning as a permanent endowment	307,433	0	0	307,433
Permanent endowment	0	0	1,435,768	1,435,768
<b>Endowment net assets, end of year</b>	<b>307,433</b>	<b>0</b>	<b>1,435,768</b>	<b>1,743,201</b>

The following is a summary of the changes in endowment net assets for the year ended June 30, 2015:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	245,796	0	1,491,213	1,737,009
Contributions	60,440	0	0	60,440
Interest and dividends, net of expenses	0	0	70,869	70,869
Realized and unrealized gains	1,197	0	(52,262)	(51,065)
Appropriation of endowment assets for expenditures	0	0	(74,052)	(74,052)
<b>Endowment net assets, end of year</b>	<b>307,433</b>	<b>0</b>	<b>1,435,768</b>	<b>1,743,201</b>

The Organization does not have any planned appropriation for expenditures at June 30, 2016 and did not make any appropriations at June 30, 2015.

The change in net assets related to funds functioning as permanent endowments at June 30, 2016 includes unrealized losses of \$(6,448). The change in net assets related to funds functioning as permanent endowments at June 30, 2015 includes unrealized gains of \$1,197. These amounts are included in Unrealized gain from permanent endowments as shown on the Statements of Support, Revenue, and Expenses - Cash Basis.



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**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
South Bend, Indiana

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**NOTES TO CASH BASIS FINANCIAL STATEMENTS**

June 30, 2016 and 2015

**NOTE 7 - FAIR VALUE 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 Organization utilized the market approach to approximate its value of Level 3 investments. Given a pool of assets whose total is known, the Organization can approximate its share of the total pooled investments value using rates of return applied to known contribution amounts. The Organization used fund statements provided by the Community Foundation of St. Joseph County that include detail of contributions and withdrawals to adjust the fair value of its assets. The Organization is very familiar with the Foundation and its investment base which includes a variety of investments including domestic (small and large cap) and global equities, fixed income securities, hedge funds, and other investments. The investments are classified as Level 3 since the fund agreements provide for the irrevocable transfer of assets to the Community Foundation of St. Joseph County. The Organization's methodologies did not change for the years ended June 30, 2016 and 2015.

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**THE PUBLIC EDUCATION FOUNDATION, INC.****d/b/a SOUTH BEND EDUCATION FOUNDATION**South Bend, Indiana

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**NOTES TO CASH BASIS FINANCIAL STATEMENTS**

June 30, 2016 and 2015

The following table presents the Organization's fair value hierarchy for the Organization's assets at fair value, as of June 30, 2016:

	<u>Fair Value</u>	Quoted Prices In Active Markets For Identical Assets ( <u>Level 1</u> )	Unobservable Inputs ( <u>Level 3</u> )
Funds functioning as permanent endowment	368,988	0	368,988
Permanent endowment			
Cash and cash equivalents	3,908	3,908	0
Mutual funds			
Equity			
Large cap domestic	452,885	452,885	0
Small and mid cap domestic	106,807	106,807	0
International developed	215,077	215,077	0
International emerging	55,755	55,755	0
Fixed Income			
Intermediate term bonds	287,810	287,810	0
Inflation protected bond	27,922	27,922	0
Municipal bond	50,511	50,511	0
International bond	41,850	41,850	0
Alternative strategies	97,867	97,867	0
<b>Total</b>	<b>1,709,380</b>	<b>1,340,392</b>	<b>368,988</b>

The following table presents the Organization's fair value hierarchy for the Organization's assets at fair value, as of June 30, 2015:

	<u>Fair Value</u>	Quoted Prices In Active Markets For Identical Assets ( <u>Level 1</u> )	Unobservable Inputs ( <u>Level 3</u> )
Funds functioning as permanent endowment	305,326	0	305,326
Permanent endowment			
Cash and cash equivalents	520	520	0
Mutual funds			
Equity			
Large cap domestic	513,899	513,899	0
Small and mid cap domestic	123,757	123,757	0
International developed	228,270	228,270	0
International emerging	59,325	59,325	0
Fixed income			
Intermediate term bonds	200,660	200,660	0
Inflation protected bond	87,108	87,108	0
Municipal bond	52,112	52,112	0
International bond	50,922	50,922	0
Alternative strategies	119,195	119,195	0
<b>Total</b>	<b>1,741,094</b>	<b>1,435,768</b>	<b>305,326</b>

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**THE PUBLIC EDUCATION FOUNDATION, INC.**  
**d/b/a SOUTH BEND EDUCATION FOUNDATION**  
South Bend, Indiana

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**NOTES TO CASH BASIS FINANCIAL STATEMENTS**

June 30, 2016 and 2015

**NOTE 8 -CONCENTRATIONS**

The Organization receives substantially all of its operating support from individuals and businesses within 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 Organization has evaluated subsequent events through September 2, 2016, the date the financial statements were available to be issued. No events or transactions occurred during this period which require recognition or disclosure in the financial statements.