Financial Statements
June 30, 2010 and 2009

Minnesota State University, Mankato Foundation, Inc.

Financial Statements

Independent Auditor's Report

The Board of Directors
Minnesota State University, Mankato Foundation, Inc.
Mankato, Minnesota

We have audited the accompanying statements of financial position of Minnesota State University, Mankato Foundation, Inc. (the Foundation) as of June 30, 2010 and 2009, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Mankato, Minnesota
September 17, 2010

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	$ 107,575	$ 166,308
Pledges receivable, net	2,514,201	2,923,793
On deposit with Minnesota State University, Mankato	-	104,108
Other assets	44,956	23,163
Total current assets	2,666,732	3,217,372
Noncurrent Assets		
Pledges receivable, net	1,715,996	625,161
Investments, at fair value	34,061,491	29,054,534
Property and equipment, net of accumulated depreciation	957,427	982,073
Total noncurrent assets	36,734,914	30,661,768
Total Assets	$ 39,401,646	$ 33,879,140
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 111,671	$ 179,949
Annuities payable	1,167,972	1,133,993
Bonds payable	244,667	432,000
Total current liabilities	1,524,310	1,745,942
Long-Term Liabilities		
Bonds payable	471,333	716,000
Total liabilities	1,995,643	2,461,942
Net Assets		
Unrestricted	4,269,229	1,770,463
Temporarily restricted	2,363,539	1,273,157
Permanently restricted	30,773,235	28,373,578
Total net assets	37,406,003	31,417,198
Total Liabilities and Net Assets	$ 39,401,646	$ 33,879,140

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support				
Contributions	$ 2,095,938	$ 902,798	$ 2,544,410	$ 5,543,146
Recovery of uncollectible pledges, net of discount	-	611,914	-	611,914
Gifts in-kind	810,759	-	-	810,759
Noncash support from the University	1,478,598	-	-	1,478,598
Investment income	947,131	-	-	947,131
Net realized and unrealized gains on investments	2,127,015	-	-	2,127,015
Change in carrying value of trusts and gift annuities	-	10,427	(15,590)	(5,163)
Support services revenue	78,014	49,973	-	127,987
Miscellaneous revenues	26,744	5,270	-	32,014
Total revenues and other support	7,564,199	1,580,382	2,528,820	11,673,401
Net Assets Released from Restriction and Reclassification	619,163	(490,000)	(129,163)	-
Total Revenues and Other Support	8,183,362	1,090,382	2,399,657	11,673,401
Expenses				
Program Services:				
Distribution for educational services	3,400,774	-	-	3,400,774
Support Services:				
Fundraising - promotion and development	1,661,634	-	-	1,661,634
General and administrative expenses	427,046	-	-	427,046
Legal, audit and accounting fees	21,683	-	-	21,683
Investment, trust and management fees	91,408	-	-	91,408
Property and equipment expenses	11,295	-	-	11,295
Property and equipment depreciation	24,646	-	-	24,646
Interest expense	46,110	-	-	46,110
Total support services	2,283,822	-	-	2,283,822
Total expenses	5,684,596	-	-	5,684,596
Change in Net Assets	2,498,766	1,090,382	2,399,657	5,988,805
Net Assets, Beginning of Year	1,770,463	1,273,157	28,373,578	31,417,198
Net Assets, End of Year	$ 4,269,229	$ 2,363,539	$ 30,773,235	$37,406,003

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support				
Contributions	$ 2,536,306	$ 74,743	$ 1,208,297	$ 3,819,346
Reserve for uncollectible pledges, net of discount	-	(611,914)	-	(611,914)
Gifts in-kind	228,947	-	-	228,947
Noncash support from the University	1,487,457	-	-	1,487,457
Investment income	1,344,849	-	-	1,344,849
Net realized and unrealized losses on investments	(7,378,084)	-	-	(7,378,084)
Change in carrying value of trusts and gift annuities	-	(40,756)	(62,659)	(103,415)
Support services revenue	76,560	65,673	-	142,233
Miscellaneous revenues	30,935	(164)	5,109	35,880
Total revenues and other support	(1,673,030)	(512,418)	1,150,747	(1,034,701)
Net Assets Released from Restriction and Reclassification	794,380	(554,119)	(240,261)	-
Total Revenues and Other Support	(878,650)	(1,066,537)	910,486	(1,034,701)
Expenses				
Program Services:				
Distribution for educational services	3,001,226	-	-	3,001,226
Support Services:				
Fundraising - promotion and development	1,776,331	-	-	1,776,331
General and administrative expenses	395,088	-	-	395,088
Legal, audit and accounting fees	25,296	-	-	25,296
Investment, trust and management fees	91,212	-	-	91,212
Property and equipment expenses	7,398	-	-	7,398
Property and equipment depreciation	24,646	-	-	24,646
Interest expense	68,552	-	-	68,552
Total support services	2,388,523	-	-	2,388,523
Total expenses	5,389,749	-	-	5,389,749
Change in Net Assets	(6,268,399)	(1,066,537)	910,486	(6,424,450)
Net Assets, Beginning of Year	8,038,862	2,339,694	27,463,092	37,841,648
Net Assets, End of Year	$ 1,770,463	$ 1,273,157	$ 28,373,578	$31,417,198

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	$ 5,988,805	$ (6,424,450)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	(2,127,015)	7,378,084
Changes in discounts to net present value and allowances for uncollectible accounts	(413,353)	563,229
Changes in carrying value of trusts and gift annuities	5,163	103,415
Depreciation	24,646	24,646
Contributions restricted for long-term investment	(2,544,410)	(1,208,297)
Changes in assets and liabilities		
Pledges receivable	(1,083,767)	168,293
Other assets	(21,793)	23,172
On deposit with Minnesota State University, Mankato	104,108	(94,954)
Accounts payable	(68,278)	(2,038)
Annuities payable	33,979	(386,532)
Net Cash (Used in) Provided by Operating Activities	(101,915)	144,568
Cash Flows from Investing Activities		
Purchases of property and equipment	-	(170,486)
Purchases of investments	(13,592,168)	(7,721,981)
Proceeds from sale and maturity of investments	10,707,063	6,925,412
Net Cash (Used in) Investing Activities	(2,885,105)	(967,055)
Cash Flows from Financing Activities		
Principal payments on bonds payable	(432,000)	(442,000)
Proceeds from contributions restricted for long-term investments	3,360,287	1,277,210
Net Cash Provided by Financing Activities	2,928,287	835,210
Net Change in Cash and Cash Equivalents	(58,733)	12,723
Cash and Cash Equivalents, Beginning of Year	166,308	153,585
Cash and Cash Equivalents, End of Year	$ 107,575	$ 166,308
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 59,007	$ 81,725
Noncash contributions	$ 2,289,357	$ 1,716,404

Note 1 - Principal Activity and Significant Accounting Policies

Organization and Nature of Activities

The purpose of Minnesota State University, Mankato Foundation, Inc. (the Foundation), a nonprofit organization, is to receive contributions and other property through fund raising and gift acceptance and to hold, invest and expend these amounts exclusively for the benefit of Minnesota State University, Mankato (the University).

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the Foundation and changes therein are classified into the following categories:

> Unrestricted – Represent the portion of expendable funds that are not subject to donor-imposed stipulations and are available to support the operations of the Foundation.
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> Temporarily restricted – Those resources subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Net assets are primarily released from donor restrictions when the purpose restriction is accomplished.
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> Permanently restricted – Those resources that consist of contributions that may have been restricted by the donor that stipulate the resources be maintained permanently by the Foundation. Generally, the donors permit the Foundation to use all or part of the income derived from the donated assets for either specified or unspecified purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses in investments and other assets or liabilities are reported as increases and decreases in unrestricted net assets unless their use is restricted by donor-imposed restrictions. Expirations of temporary restrictions on net assets for which the stipulated purposes have been fulfilled and for which the stipulated time period has elapsed are reported as reclassifications between the applicable classes of net assets.

Contributions

Revenues are recorded in the fiscal year in which the unconditional contributions are made. Contributions that are purpose or time restricted are recorded as temporarily restricted amounts and transferred to unrestricted balances as restrictions are met. However, donor-restricted contributions whose restrictions are met in the same reporting period in which the contributions are received are reported as unrestricted support. Contributions that are permanently restricted are recorded as additions to permanently restricted net assets. Conditional promises are recorded when the condition has been satisfied.

Contributed property and equipment is recorded at fair value at the date of donation. In the absence of donor stipulations, the Foundation presents these assets as unrestricted support. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated services are recorded when there is an objective basis to measure the value of such services and the service involves specialized skills that would be purchased, if not provided by donation. The services of most volunteers have not been reflected in the statements as donated services, since there is no objective measurement basis and they do not meet accounting principles generally accepted in the United States of America's criteria for recognition.

Pledge Receivables

Contributions to be received after one year are discounted at a rate of 5.5% which is considered commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions is provided based on management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity. As of June 30, 2009, the allowance included a specific reserve against one donor which filed bankruptcy during fiscal 2009 in the amount of $666,674. Due to the uncertainty of the outcome which was dependent upon the ruling of the bankruptcy court, 100% of the donor pledge was reserved during the year ending June 30, 2009. During 2010 the donor came out of bankruptcy with no effect on the pledge receivable and the donor made their fiscal year 2010 payment of $166,674. The remaining reserve that was specific to this donor was reversed during the year ended June 30, 2010.

Trust Agreements

The Foundation has entered into various trust agreements that provide, among other matters, that the Foundation as trustee shall pay to the beneficiaries an annual income payment until the income obligation is completed in accordance with the donor's trust agreement. Upon termination of the trust, the Foundation is to receive the remaining amounts held by the trust. Where the Foundation is the trustee, the assets of the trust are included within investments at fair value and the present value of estimated future payments to beneficiaries are recorded as annuities payable in the statement of financial position. A contribution is recorded when the trust is established as either temporarily restricted or permanently restricted based on the intention of the donor.

The Foundation may also be a named beneficiary of a trust where the Foundation is not the trustee. The Foundation has recorded the net present value of the future cash flows from these trusts within the other assets. A contribution is recorded when the trust is established as either temporarily restricted or permanently restricted based on the intention of the donor.

Gift Annuity Agreements

The Foundation has entered into gift annuity agreements that provide that the Foundation shall pay to the designated beneficiaries a specified annual amount until the death of the designated beneficiaries. The Foundation records the assets received for gift annuities at fair value with a corresponding liability recorded for the present value of payments to be made to the designated beneficiaries with the residual amount recorded for the purposes designated when the gift is received. The Foundation records the present value of estimated future payments to annuitants in annuities payable in the statement of financial position. A contribution is recorded when the annuity agreement is established as unrestricted, temporarily restricted or permanently restricted based on the intention of the donor.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all demand, savings, and certificates of deposits to be cash equivalents. Money market accounts with brokerage firms are considered investments. At times, the Foundation's demand, savings, and certificates of deposits with financial institutions exceed the FDIC's insurance limit. The Foundation has not experienced any losses in these accounts.

Concentrations of Credit Risks

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of temporary cash investments and receivables arising from promises to give. The Foundation places its temporary cash investments with brokerage houses and various financial institutions and limits the amount of exposure to any one institution. Concentrations of credit risk with respect to receivables arising from pledges receivable are limited due to the large number of contributors comprising the Foundation's contributor base and their dispersion across geographic areas. However, at June 30, 2010 and 2009, unconditional pledges receivable include four donors' balances which approximated 65%, and two donors' balances which approximated 62% of the total pledges receivable for each of the respective years.

Risks and Uncertainties

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances as recorded in investments in the statements of financial position.

Property and Equipment

Property and equipment are depreciated over their estimated useful lives of 10 years using the straight-line method. Land is not subject to depreciation.

Fair Value Measurements

The Foundation has determined the fair value of certain assets and liabilities in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 920-10, *Fair Value Measurement and Disclosure* (previously FASB Statement No. 157, *Fair Value Measurements)*, which provides a framework for measuring fair value under generally accepted accounting principles.

FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820-10 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

Investment Valuation

Realized and unrealized gains and losses are included in the change in unrestricted net assets, unless their use is temporarily or permanently restricted by donor stipulations or law. Realized gains and losses are reported at date of disposition based on the difference between the net proceeds received and the purchased value of the investment sold, using the specific identification method. Unrealized gains and losses are reported for the change in fair value between reporting periods. Interest and dividend income is reported when earned.

Income Taxes

The Foundation is a nonprofit organization, exempt for federal income taxes under the Internal Revenue Code Section 501 (c) (3) and qualifies as a tax-exempt organization under applicable statutes of the state of Minnesota.

The Foundation has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), on July 1, 2009. The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of June 30, 2010, the unrecognized tax benefit accrual was zero.

The Foundation will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Use of 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 the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Foundation has evaluated subsequent events through September 17, 2010, the date which the financial statements were available to be issued.

Note 2 - Investments

Investments consist of the following at June 30, 2010 and 2009:

	2010	2009
Equity mutual funds	$ 19,661,413	$ 17,855,848
Fixed income mutual funds	10,229,949	5,710,591
Balanced investment mutual funds	2,139,920	2,688,430
Money market funds	1,678,718	2,131,595
Other investments	226,742	512,104
Life insurance contracts	89,758	96,632
Equity securities	31,819	46,405
Fixed income securities	3,172	12,929
Total	$ 34,061,491	$ 29,054,534

Note 3 - Pledges Receivable

Pledges receivable at June 30, 2010 and 2009 are as follows:

	2010	2009
Receivable in less than one year	$ 2,731,594	$ 3,170,408
Receivable in one to five years	1,862,287	1,175,266
Receivable in more than five years	42,183	22,500
	4,636,064	4,368,174
Less discounts to net present value at 5.5%	(188,474)	(72,596)
Less allowance for uncollectible pledges	(217,393)	(746,624)
Net pledges receivable	$ 4,230,197	$ 3,548,954

Note 4 - Property and Equipment

Property and equipment consist of the following at June 30, 2010 and 2009:

	2010	2009
Land	$ 945,134	$ 945,134
Equipment - signage and outdoor marquee	246,365	246,365
Less accumulated depreciation	(234,072)	(209,426)
Total	$ 957,427	$ 982,073

Note 5 - Bonds Payable

Bond payable consists of the following at June 30, 2010 and 2009:

	2010	2009
Bonds payable, collateralized by a security interest in the right to payment consisting of unconditional promises to give to the Foundation for the Taylor Center Campaign; payable annually in varying amounts through December 1, 2012, with interest at 5.14% per annum.	$ 716,000	$ 1,148,000

Future scheduled maturities of the above debt are as follows:

Years Ending June 30,	Amount
2011	$ 244,667
2012	244,667
2013	226,666
	$ 716,000

Note 6 - Related Party Transactions

The Foundation has an agreement with the University whereby the University has agreed to furnish space and provide services for the operations of the Foundation. In return, the Foundation has agreed to expend its revenues exclusively for the benefit of the University.

For the years ended June 30, 2010 and 2009, the following University expenditures on behalf of the Foundation were identified:

	2010	2009
Salaries, wages and fringe benefits	$ 939,445	$ 998,019
Space	61,743	59,349
Student worker and other non-salary costs	477,410	430,089
Total	$ 1,478,598	$ 1,487,457

Note 7 - Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2010 and 2009:

	2010	2009
Educational	$ 347,312	$ 336,886
Buildings and improvements - College of Business	1,293,615	413,035
Buildings and improvements - Taylor Center	722,612	523,236
Total	$ 2,363,539	$ 1,273,157

Permanently restricted net assets are available for the following purposes at June 30, 2010 and 2009:

Note 8 - Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis at June 30, are as follows:

	2010	2009
Investment securities	$ 33,596,900	$ 27,757,688
Pledges receivable	4,230,197	3,548,954
Alternative investments	464,591	1,296,846
Total assets	$ 38,291,688	$ 32,603,488

The related fair values of these assets and liabilities are determined as follows:

	2010		
	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)
Investment securities	$ 33,510,836	$ 86,064	$ -
Pledges receivable	-	-	4,230,197
Alternative investments	-	-	464,591
Total assets	$ 33,510,836	$ 86,064	$ 4,694,788

	2009		
	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)
Investment securities	$ 27,622,495	$ 135,193	$ -
Pledges receivable	-	-	3,548,954
Alternative investments	-	-	1,296,846
Total assets	$ 27,622,495	$ 135,193	$ 4,845,800

Following is a reconciliation of activity for the year ended June 30, 2010, for assets measured at fair value based upon significant unobservable (non-market) information.

	Alternative Investments	Pledges Receivable
Alternative investments balance, beginning of year	$ 1,296,846	$ 3,548,954
Realized and unrealized gains (losses) included in earnings	34,980	-
Purchases, issuances and settlements	(867,235)	-
Pledge contributions	-	5,543,146
Outstanding pledges collected during fiscal year 2009	-	(4,861,903)
Alternative investments balance, end of year	$ 464,591	$ 4,230,197

The fair value of pledges receivable is determined based upon discounted future cash flows, which is presented net of the allowance for uncollectible pledges of $217,393 and the discount of $188,474.

Note 9 - Endowments

The Foundation's endowment consists of approximately 300 individual funds established for a variety of purposes. Those funds are organized in five separate funds, accumulated under the Minnesota State University Mankato Composite for management and record-keeping purposes, making up the endowment assets of the Foundation. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a review based on a total return concept, balancing prudent spending for the purposes intended annually, while keeping in mind the need for the endowment to serve in perpetuity for the benefit of Minnesota State University, Mankato. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Foundation and the University
(7) The investment policies of the Foundation

The composition of Endowment Net Assets by fund type as of June 30, 2010, is as follows:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 30,773,235	$ 30,773,235
Board-designated endowment funds	414,707	-	414,707
	$ 414,707	$ 30,773,235	$ 31,187,942

The composition of Endowment Net Assets by fund type as of June 30, 2009, is as follows:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 28,373,578	$ 28,373,578
Board-designated endowment funds	456,801	-	456,801
	$ 456,801	$ 28,373,578	$ 28,830,379

Changes in Endowment Net Assets for the year ending June 30, 2010, are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 456,801	$ 28,373,578	$ 28,830,379
Change in value of trusts	-	(15,590)	(15,590)
Contributions	25,841	2,544,410	2,570,251
Appropriation of endowment assets for expenditure	(71,446)	(129,163)	(200,609)
Other transfers	3,511	-	3,511
Endowment net assets, end of year	$ 414,707	$ 30,773,235	$ 31,187,942

Funds with Deficiencies (Disclosure required by paragraph 15(d) of Statement 124)

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2010.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds used for a particular purpose as well as Board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a blend of equity and fixed assets in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds to have a long term expected return of 7.9%; with a ten year time horizon, to return 9.2%. Actual returns in any given year will vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments, blended with fixed assets, to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's spending policy states that, in part, the distribution of income will be used to support the donor's stated objectives for the endowment. A percentage of the overall endowment balance, which will be determined by the Board annually, shall be distributed to accounts in the following manner: A trailing 12 quarter average of all endowments will be determined as of December 31 of each year. The percentage determined by the Board will be applied to the 12 quarter average to determine the total amount to be distributed to the donor's objective for all endowments. That total amount will then be distributed to the individual endowment purposes proportionately, based on the average balance in each endowment for the last four quarters. Each year the Foundation Investment Committee shall present the recommended percentage of distribution to the Foundation Board for approval no later than February of each year. The Foundation expects the current spending policy to allow its endowment to grow annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets while providing support for the programs, along with additional real growth through new gifts and investment return.