

THE V FOUNDATION
September 30, 2010 and 2009
Financial Statements
With
Independent Auditor's Report



Independent Auditor's Report

Board of Directors
The V Foundation
Cary, North Carolina

We have audited the accompanying statements of financial position of The V Foundation as of September 30, 2010 and 2009, and the related statements of activities and changes in net assets, functional expenses, 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 audits 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 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 V Foundation as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

FROST, PLLC

Certified Public Accountants

Little Rock, Arkansas
January 10, 2011

Statements of Financial Position

September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 11,504,753	\$ 11,011,434
Certificates of deposit	1,515,920	2,627,141
Pledges receivable, net of allowance	1,430,492	2,214,078
Accounts receivable	63,000	596,250
Other current assets	<u>38,983</u>	<u>44,315</u>
Total current assets	<u>14,553,148</u>	<u>16,493,218</u>
Long-term assets		
Pledge receivables, net of allowance	1,933,720	2,966,695
Investments designated for long-term use	18,742,971	16,857,023
Property and equipment, net	10,743	10,607
Intangible assets - finite-lived, net	<u>236</u>	<u>410</u>
Total other assets	<u>20,687,670</u>	<u>19,834,735</u>
Total assets	<u>\$ 35,240,818</u>	<u>\$ 36,327,953</u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable and accrued expenses	\$ 60,860	\$ 13,014
Grants payable	<u>10,011,666</u>	<u>10,161,417</u>
Total current liabilities	10,072,526	10,174,431
Long-term liabilities		
Grants payable	<u>9,115,709</u>	<u>9,378,702</u>
Total liabilities	<u>19,188,235</u>	<u>19,553,133</u>
Net assets		
Unrestricted	2,774,346	(2,565,877)
Temporarily restricted	-	1,765,883
Permanently restricted	<u>13,278,237</u>	<u>17,574,814</u>
Total net assets	<u>16,052,583</u>	<u>16,774,820</u>
Total liabilities and net assets	<u>\$ 35,240,818</u>	<u>\$ 36,327,953</u>

The accompanying notes are an integral part of these financial statements.

THE V FOUNDATION

Statements of Activities and Changes in Net Assets

For the Years Ended September 30, 2010 and 2009

	2010			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Revenues, gains and other support				
Contributions	\$ 7,183,962	\$ 746,276	\$ 753,423	\$ 8,683,661
Special events, net of expenses	2,116,174	-	-	2,116,174
Investment income, net of expenses	369,272	-	-	369,272
Net realized and unrealized gains on investments designated for long-term use	<u>1,345,115</u>	<u>-</u>	<u>-</u>	<u>1,345,115</u>
	11,014,523	746,276	753,423	12,514,222
Net assets released from restrictions				
Satisfaction of program restrictions	<u>7,562,159</u>	<u>(2,512,159)</u>	<u>(5,050,000)</u>	<u>-</u>
Total revenues, gains and other support	<u>18,576,682</u>	<u>(1,765,883)</u>	<u>(4,296,577)</u>	<u>12,514,222</u>
Expenses				
Program	12,414,329	-	-	12,414,329
Management and general	376,633	-	-	376,633
Fund-raising	<u>445,497</u>	<u>-</u>	<u>-</u>	<u>445,497</u>
Total expenses	<u>13,236,459</u>	<u>-</u>	<u>-</u>	<u>13,236,459</u>
Changes in net assets	5,340,223	(1,765,883)	(4,296,577)	(722,237)
Net assets - beginning of year	<u>(2,565,877)</u>	<u>1,765,883</u>	<u>17,574,814</u>	<u>16,774,820</u>
Net assets - end of year	<u>\$ 2,774,346</u>	<u>\$ -</u>	<u>\$ 13,278,237</u>	<u>\$ 16,052,583</u>

2009			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 7,154,123	\$ 1,970,543	\$ 989,463	\$ 10,114,129
2,043,272	-	-	2,043,272
466,032	-	-	466,032
<u>822,180</u>	<u>-</u>	<u>-</u>	<u>822,180</u>
10,485,607	1,970,543	989,463	13,445,613
<u>860,160</u>	<u>(860,160)</u>	<u>-</u>	<u>-</u>
<u>11,345,767</u>	<u>1,110,383</u>	<u>989,463</u>	<u>13,445,613</u>
12,577,850	-	-	12,577,850
322,354	-	-	322,354
429,690	-	-	429,690
<u>13,329,894</u>	<u>-</u>	<u>-</u>	<u>13,329,894</u>
(1,984,127)	1,110,383	989,463	115,719
<u>(581,750)</u>	<u>655,500</u>	<u>16,585,351</u>	<u>16,659,101</u>
<u>\$ (2,565,877)</u>	<u>\$ 1,765,883</u>	<u>\$ 17,574,814</u>	<u>\$ 16,774,820</u>

The accompanying notes are an integral part of these financial statements.

THE V FOUNDATION

Statements of Functional Expenses

For the Years Ended September 30, 2010 and 2009

	2010			
	<u>Program</u>	<u>Management and General</u>	<u>Fund-raising</u>	<u>Total</u>
Grant expense	\$ 10,750,763	\$ -	\$ -	\$ 10,750,763
Direct fund-raising	-	-	27,598	27,598
Personnel expenses				
Salaries and wages	402,936	183,526	203,632	790,094
Payroll taxes	27,343	12,454	13,817	53,614
Employee benefits	85,841	39,098	43,382	168,321
Occupancy expenses				
Rent	26,421	12,034	13,352	51,807
Maintenance	5,739	2,614	2,900	11,253
Utilities	6,552	2,984	3,311	12,847
Insurance	5,113	2,329	2,584	10,026
Office expenses				
Credit card processing	47,262	21,526	23,885	92,673
Data processing and online servicing	25,698	11,703	12,987	50,388
Licenses	2,635	1,200	1,332	5,167
Other supplies and expenses	5,213	2,374	2,634	10,221
Professional fees	66,816	30,433	33,767	131,016
Travel related expenses	44,197	20,130	22,336	86,663
Public relations and advertising	42,873	19,527	21,667	84,067
Printing and postage				
Postage and shipping	18,384	8,373	9,291	36,048
Printing, copying and stationary	11,844	5,395	5,986	23,225
Bad debt expense	836,649	-	-	836,649
Depreciation	1,961	893	991	3,845
Amortization	89	40	45	174
	<u>\$ 12,414,329</u>	<u>\$ 376,633</u>	<u>\$ 445,497</u>	<u>\$ 13,236,459</u>

2009			
<u>Program</u>	<u>Management and General</u>	<u>Fund-raising</u>	<u>Total</u>
\$ 11,705,595	\$ -	\$ -	\$ 11,705,595
-	-	31,708	31,708
277,872	177,591	214,447	669,910
17,569	13,095	15,812	46,476
68,652	32,696	39,481	140,829
29,531	8,992	10,858	49,381
5,506	1,677	2,024	9,207
7,724	2,352	2,840	12,916
7,146	2,176	2,627	11,949
46,313	14,102	17,028	77,443
25,966	7,906	9,547	43,419
2,972	903	1,094	4,969
7,624	2,323	2,805	12,752
48,981	14,914	18,010	81,905
44,601	13,581	16,399	74,581
37,010	11,269	22,333	70,612
23,791	7,244	8,749	39,784
33,481	10,195	12,313	55,989
183,123	-	-	183,123
4,289	1,306	1,577	7,172
104	32	38	174
<u>\$ 12,577,850</u>	<u>\$ 322,354</u>	<u>\$ 429,690</u>	<u>\$ 13,329,894</u>

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

For the Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Changes in net assets	\$ (722,237)	\$ 115,719
Adjustments to reconcile changes in net assets provided (used) by operating activities		
Depreciation	3,845	7,172
Amortization of intangibles	174	174
Net unrealized and realized gains on investments designated for long-term use	(1,345,115)	(822,180)
Changes in operating assets and liabilities		
Pledges receivable	1,816,561	40,367
Accounts receivable	533,250	(538,250)
Other current assets	5,332	2,882
Accounts payable and accrued expenses	47,846	(29,326)
Grants payable	<u>(412,744)</u>	<u>3,380,816</u>
Net cash provided (used) by operating activities	<u>(73,088)</u>	<u>2,157,374</u>
Cash flows from investing activities		
Purchase of furniture and equipment	(3,981)	-
Purchase of certificates of deposit	-	(2,627,141)
Redemption of certificates of deposit	1,111,221	-
Purchase of investments designated for long-term use	(8,626,486)	(7,224,464)
Proceeds from sale of investments restricted for long-term use	<u>8,085,653</u>	<u>6,442,826</u>
Net cash provided (used) by investing activities	<u>566,407</u>	<u>(3,408,779)</u>
Increase (decrease) in cash and cash equivalents	493,319	(1,251,405)
Cash and cash equivalents - beginning of year	<u>11,011,434</u>	<u>12,262,839</u>
Cash and cash equivalents - end of year	<u>\$ 11,504,753</u>	<u>\$ 11,011,434</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

September 30, 2010 and 2009

1. Summary of Significant Accounting Policies

- a. **Nature of organization** – The V Foundation (the “Foundation”) was incorporated on February 12, 1993 as a nonprofit, charitable organization dedicated to saving lives by helping to find a cure for cancer. The Foundation’s mission is to generate broad based support for cancer research and to create an urgent awareness among all Americans of the importance of the war against cancer. The Foundation accomplishes its mission through advocacy, education, fund-raising and philanthropy.
- b. **Financial statement presentation** – The Foundation reports information regarding its financial position according to three classes of net assets: permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. Permanently restricted net assets represent net assets resulting from contributions where use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. Temporarily restricted net assets represent net assets resulting from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation. All other net assets are considered to be unrestricted.
- c. **Revenues** – 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 are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e. when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.
- d. **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 disclosure of contingent assets and liabilities at 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.
- e. **Cash and cash equivalents** – For purposes of the statements of cash flows, the Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
- f. **Pledges receivable** – Pledges receivable consist of contributions receivable and are stated at the amount the Foundation expects to collect. The Foundation uses the allowance method to determine uncollectible pledges. The allowance is based on prior years’ experience and management’s analysis of the pledge. Pledges are charged off to the allowance when management deems the pledges will not be collectible. Past due status is based on how recently payments have been made on the pledge. While management believes the Foundation’s processes effectively address its exposure to doubtful pledges, changes in specific donor conditions may require adjustments to the allowance recorded by the Foundation. The Foundation’s allowance for doubtful pledges was \$181,459 and \$278,810 at September 30, 2010 and 2009, respectively.

Notes to Financial Statements

September 30, 2010 and 2009

1. Summary of Significant Accounting Policies (cont.)

- g. **Accounts receivable** – Accounts receivable consist of receivables from special events held with the specific purpose of promoting and publicizing the Foundation. The Foundation considers the accounts to be fully collectible as of September 30, 2010 and 2009.
- h. **Inventory** – Inventory is valued at the lower of cost, as determined on a first-in, first-out basis, or market.
- i. **Property and equipment** – Property and equipment (including capital lease assets) purchased are stated at cost or fair market value at the date of donation in-kind in excess of \$500. Depreciation is recorded using the straight-line method over the estimated useful lives of three to seven years. The estimated fair value of donated property is recorded as contributions income and fixed assets in the period received.

Expenditures for repairs and maintenance are charged to expense as incurred. The costs of major renewals and betterments are capitalized and depreciated over their estimated useful lives. Upon disposition, the cost and related accumulated depreciation accounts are relieved and any related gains or losses are included in operations.

- j. **Long-lived assets** – The Foundation reviews the carrying value of property and equipment for impairment whenever certain triggering events or changes in circumstances indicate that the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying amount exceeds the fair value of assets. The factors considered by management in performing this assessment include operating results, trends, prospects, as well as the effects of obsolescence, demand, competition and other economic factors. Based on management's assessment, no triggering events or changes in circumstances occurred during the years ended September 30, 2010 or 2009.
- k. **Investments designated for long-term use** – The Foundation records all publicly traded marketable equity securities and all debt securities at fair value based upon quoted market prices at the statements of financial position date, with realized and unrealized gains and losses being reported in the statements of activities and changes in net assets. The Board of Directors has designated investments to support the operations of future years.

The Foundation also holds stock in nonpublicly traded companies and values these securities at cost. The aggregate carrying amount of these investments was \$105,465 and \$104,373 at September 30, 2010 and 2009, respectively. The fair value of these investments has not been estimated because there are no triggering events or changes in circumstances that may have a significant adverse effect on their value, and the Foundation is exempt from estimating fair value under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-325, "Investments," and FASB ASC 825, "Financial Instruments."

Notes to Financial Statements

September 30, 2010 and 2009

1. Summary of Significant Accounting Policies (cont.)

- l. **Amortization of copyrights and trademarks** – The cost of copyrights and trademarks is amortized on a straight-line basis over a period of 15 years. Accumulated amortization of these assets totaled \$2,371 and \$2,197 for the years ended September 30, 2010 and 2009, respectively. Future amortization is expected to total \$174 and \$62 for 2011 and 2012, respectively.
- m. **Income taxes** – The Foundation is exempt from federal income taxes in accordance with Internal Revenue Code Section 501c(3) and a similar state statute, except for any unrelated business income. Since there was no unrelated business income during the years ended September 30, 2010 or 2009, no provision for income taxes is reflected in these financial statements.
- n. **Contributions** – Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved.
- o. **Recognition of program grants** – Program grants and the corresponding grants payable are recognized at the time the grant award letter is sent to the recipient. Grants to be awarded more than one year in the future are discounted at an appropriate rate commensurate with the risk involved.
- p. **In-kind donations** – Contributions of donated noncash assets are recorded at their fair value in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received.
- q. **Functional expenses** – Expenses are charged to programs based on direct expenditures incurred. Any expenditure not directly chargeable is allocated to programs based on management's estimate.
- r. **Advertising** – The Foundation expenses advertising as incurred. Advertising expense was \$1,976 and \$500 for the years ended September 30, 2010 and 2009, respectively.

2. Pledges Receivable

Pledges receivable relate to amounts owed from endowed pledges and events held to support the Foundation. The Foundation does not require collateral to substantiate these pledges. An allowance for uncollectible pledges is provided based on management's evaluation of potential uncollectible pledges receivable at year end. Management's estimate of the allowance for uncollectible pledges was \$181,459 and \$278,810 at September 30, 2010 and 2009, respectively. Since a significant portion of the outstanding pledges are not expected to be realized for a number of years, the pledge receivables have been discounted to the present value.

Notes to Financial Statements

September 30, 2010 and 2009

2. **Pledges Receivable (cont.)**

Pledges receivable are summarized as follows:

	<u>2010</u>	<u>2009</u>
Unconditional promises expected to be collected in		
Less than one year	\$ 1,430,492	\$ 2,214,078
One year to five years	1,955,223	3,035,814
Greater than five years	<u>76,000</u>	<u>47,500</u>
	3,461,715	5,297,392
Less unamortized discount (1.024%)	<u>(97,503)</u>	<u>(116,619)</u>
	3,364,212	5,180,773
Current portion	<u>1,430,492</u>	<u>2,214,078</u>
Long-term portion	<u>\$ 1,933,720</u>	<u>\$ 2,966,695</u>

Members of the Board of Directors and management of the Foundation have pledged certain amounts to support the Foundation's programs. Promises to give from these related parties totaled \$208,346 and \$237,346 at September 30, 2010 and 2009, respectively.

The Foundation has been named in a number of wills as a beneficiary and has also been informed of other intentions to give. Such intentions to give, which cannot be recorded as contributions receivable until they become unconditional, are estimated by management to aggregate approximately \$9,365,000 and \$7,665,000 for the years ended September 30, 2010 and 2009, respectively.

3. **Investments**

The Foundation's investments consist of the following:

	<u>2010</u>	<u>2009</u>
Marketable securities		
Carried at fair value		
U.S. Treasury securities	\$ 3,709,249	\$ 3,026,547
Corporate debt securities	3,011,668	3,204,188
Equity securities	11,177,493	10,053,984
Other	686,200	400,000
Accrued interest	52,896	67,931
Equity securities at cost	<u>105,465</u>	<u>104,373</u>
Total marketable securities	<u>\$ 18,742,971</u>	<u>\$ 16,857,023</u>

Notes to Financial Statements

September 30, 2010 and 2009

3. **Investments** (cont.)

The following summarizes the investment return and its classification in the statements of activities and changes in net assets:

	<u>2010</u>	<u>2009</u>
Investment income, net of expense		
Dividends and interest	\$ 526,716	\$ 598,746
Investment expenses	<u>(157,444)</u>	<u>(132,714)</u>
	<u>369,272</u>	<u>466,032</u>
Net realized and unrealized gains (losses) on investments designated for long-term use		
Net realized gains (losses)	884,522	(1,078,651)
Net unrealized gains	<u>460,593</u>	<u>1,900,831</u>
	<u>1,345,115</u>	<u>822,180</u>
Net investment income	<u>\$ 1,714,387</u>	<u>\$ 1,288,212</u>

4. **Property and Equipment**

Property and equipment consist of the following:

	<u>2010</u>	<u>2009</u>
Furniture and fixtures	\$ 34,072	\$ 31,673
Office equipment	<u>48,210</u>	<u>46,628</u>
	82,282	78,301
Less allowance for accumulated depreciation	<u>(71,539)</u>	<u>(67,694)</u>
	<u>\$ 10,743</u>	<u>\$ 10,607</u>

Notes to Financial Statements

September 30, 2010 and 2009

5. **Grants Payable**

Grants payable are summarized as follows:

	<u>2010</u>	<u>2009</u>
Less than one year	\$ 10,011,666	\$ 10,161,417
One year to five years	<u>9,596,667</u>	<u>9,783,333</u>
	19,608,333	19,944,750
Less discount (3.25%)	<u>(480,958)</u>	<u>(404,631)</u>
	19,127,375	19,540,119
Current portion	<u>10,011,666</u>	<u>10,161,417</u>
Long-term portion	<u>\$ 9,115,709</u>	<u>\$ 9,378,702</u>

6. **Restrictions on Net Assets**

Permanently restricted net assets represent contributions made by donors who have restricted the use of their contributions to provide funding for The V Foundation Endowment Fund (the "Fund"). The Fund has been established to provide funding for the operations of the Foundation from the earnings on restricted assets.

The Fund contributions totaled \$753,423 and \$989,463 for the years ended September 30, 2010 and 2009, respectively.

Additionally, certain previously designated Fund contributions totaling \$5,050,000 were released from their permanent restriction by the original donor and are presented as net assets released from restrictions on the statements of activities and changes in net assets.

Temporarily restricted net assets represent contributions and event income that has been restricted for use by the donors. Restricted contributions and event income totaled \$746,276 and \$1,970,543 for the years ended September 30, 2010 and 2009, respectively.

7. **Retirement Plan**

The Foundation maintains a simple IRA plan for its eligible employees. The Foundation matches up to 3% of each participating employee's compensation. The expense was \$22,068 and \$22,091 for the years ended September 30, 2010 and 2009, respectively.

Notes to Financial Statements

September 30, 2010 and 2009

8. Special Events

During 2010 and 2009, ESPN, Inc. (a cable television network) held several special events with the specific objective of promoting and publicizing the charitable, educational and research activities of the Foundation. Net proceeds to the Foundation from these events totaled \$947,120 and \$846,835 for the years ended September 30, 2010 and 2009, respectively.

In July 2010 and 2009, a separate, but affiliated organization held its annual Wine Celebration, in Napa Valley, California. A specific objective of the celebration was to promote and publicize the charitable, educational and research activities of the Foundation. The Foundation received net proceeds from the dinners and auctions held during the Wine Celebration of \$1,093,355 and \$1,061,646 for the years ended September 30, 2010 and 2009, respectively.

The Foundation received contributions of \$75,699 and \$134,791 for the years ended September 30, 2010 and 2009, respectively, from the Jimmy V. Celebrity Golf Classic, a separate but affiliated organization.

9. Lease Commitments

The Foundation leases a postage machine under an operating lease agreement, which expires in 2012. During the year ended September 30, 2009, the Foundation began leasing software under an operating lease agreement which expires in 2012. The Foundation also leases its office space under an operating lease agreement which expires in 2011. Rent expense for the Foundation under these lease agreements totaled \$51,807 and \$49,381 for the years ended September 30, 2010 and 2009, respectively.

A schedule of future minimum lease payments under all of the Foundation's operating leases as of September 30, 2010 is as follows:

2011	\$ 68,555
2012	<u>25,685</u>
	<u>\$ 94,240</u>

10. Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist primarily of pledge receivables with a variety of donors and cash and cash investments deposited with financial institutions and credit associations.

At September 30, 2010 and 2009 and at various times throughout these years, the Foundation maintained cash and cash investment balances with financial institutions in excess of Federal Deposit Insurance Corporation insured limits.

Notes to Financial Statements

September 30, 2010 and 2009

10. **Concentrations of Credit Risk (cont.)**

Pledge receivables are from individuals throughout the United States and abroad. A substantial portion of the Foundation's revenues and support is derived from donor pledges. The Foundation is exposed to risk of fluctuations in capital markets and other economic factors. During 2010, approximately 21% of outstanding pledges receivable were from two donors. Grants payable at September 30, 2010 included payables of 18% and 10% to two organizations.

11. **Endowments**

The Foundation's endowments consist of one individual fund established for providing long-term stability and utilization of its earnings for funding of the operations of the Foundation. Its endowments represent donor-restricted endowment funds. There are no 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.

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. 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 unrestricted net assets to be appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, 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 Foundation 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
- (7) The investment policies of the Foundation

Notes to Financial Statements

September 30, 2010 and 2009

11. Endowments (cont.)

Endowment net asset and activity is as follows:

<u>Donor-restricted</u>	<u>Permanently Restricted</u>
Endowment assets at September 30, 2008	\$ 16,585,351
Contributions	<u>989,463</u>
Endowment assets at September 30, 2009	17,574,814
Contributions	753,423
Released from restrictions by donors	<u>(5,050,000)</u>
Endowment assets at September 30, 2010	<u>\$ 13,278,237</u>

Funds with Deficiencies

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 SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of September 30, 2010 or 2009.

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 that the Foundation must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of certificates of deposit while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 6% annually. Actual returns in any given year may 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 to achieve its long-term return objectives within prudent risk constraints as managed by the Foundation's Endowment Association.

Notes to Financial Statements

September 30, 2010 and 2009

11. **Endowments (cont.)***Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Foundation has a policy of appropriating for distribution each year based upon the prior year's investment earnings of the related endowment. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at a moderate rate. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

12. **Fair Value Measurements**

The Foundation measures certain financial assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the financial asset or liability. Additionally, fair value is used either annually or on a nonrecurring basis to evaluate certain financial assets and liabilities for impairment or for disclosure purposes.

Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities are as follows:

- **Level 1** – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.
- **Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain corporate debt securities and derivative contracts.
- **Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes long-term derivative contracts and real estate.

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12. Fair Value Measurements (cont.)

The following are the major categories of assets and liabilities measured at fair value on a recurring basis during the years ended September 30, 2010 and 2009 quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

	Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Unobservable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)	Total		
<u>September 30, 2010</u>								
U.S. Treasury securities	\$	-	\$	3,709,249	\$	-	\$	3,709,249
Corporate debt securities		-		3,011,668		-		3,011,668
Equity securities		11,177,493		-		-		11,177,493
Other		-		52,896		791,665		844,561
		<u>\$ 11,177,493</u>		<u>\$ 6,773,813</u>		<u>\$ 791,665</u>		<u>\$ 18,742,971</u>
<u>September 30, 2009</u>								
U.S. Treasury securities	\$	-	\$	3,026,547	\$	-	\$	3,026,547
Corporate debt securities		-		3,204,188		-		3,204,188
Equity securities		10,053,984		-		-		10,053,984
Other		-		67,931		504,373		572,304
		<u>\$ 10,053,984</u>		<u>\$ 6,298,666</u>		<u>\$ 504,373</u>		<u>\$ 16,857,023</u>

The following table presents additional information about financial assets and liabilities measured at fair value on a recurring basis and for which the Foundation has utilized Level 3 inputs or value drivers to determine fair value.

	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 504,373	\$ 87,500
Purchases, sales, issuance and settlements, net	201,092	416,873
Realized and unrealized losses included in earnings	86,200	-
Transfers in and/or out of Level 3, net	-	-
	<u>\$ 791,665</u>	<u>\$ 504,373</u>

Notes to Financial Statements

September 30, 2010 and 2009

13. **Subsequent Events Evaluation Date**

The Foundation evaluated the events and transactions subsequent to its September 30, 2010 statements of financial position date and determined there were no significant events to report through January 10, 2011, which is the date the Foundation issued its financial statements.