

**UNIVERSITY OF ALASKA
And
UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED ENDOWMENT FUND**

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

**UNIVERSITY OF ALASKA
and
UNIVERSITY OF ALASKA FOUNDATION
CONSOLIDATED ENDOWMENT FUND**

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KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Board of Trustees
University of Alaska and University of Alaska
Foundation Consolidated Endowment Fund:

We have audited the accompanying statements of assets and liabilities of the University of Alaska and University of Alaska Foundation Consolidated Endowment Fund (Fund) as of June 30, 2012 and 2011, and the related statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund'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 Fund's internal control over financial reporting. Accordingly, we express no such 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 University of Alaska and University of Alaska Foundation Consolidated Endowment Fund as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 15, 2012

**UNIVERSITY OF ALASKA
and
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STATEMENTS OF ASSETS AND LIABILITIES
June 30, 2012 and 2011

Assets	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 13,103,620	\$ 17,357,870
Fixed income securities	51,109,718	50,972,030
Equity securities	147,609,974	175,354,548
Real assets	25,772,170	8,827,879
Absolute return	<u>25,449,183</u>	<u>4,762,967</u>
Total assets	<u>263,044,665</u>	<u>257,275,294</u>
Liabilities	<u>-</u>	<u>-</u>
Net Assets		
University of Alaska	125,225,758	125,422,019
University of Alaska Foundation	<u>137,818,907</u>	<u>131,853,275</u>
Total net assets	<u>\$ 263,044,665</u>	<u>\$ 257,275,294</u>

The accompanying notes are an integral part of the financial statements

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STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the years ended June 30, 2012 and 2011

Investment Income	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 2,443,066	\$ 4,132,919
Operating gains (losses)	<u>233,748</u>	<u>(62,584)</u>
Net investment income before expenses	<u>2,676,814</u>	<u>4,070,335</u>
Expenses		
Management fees	300,221	154,315
Investment consulting fees	88,000	107,000
Audit fees	24,695	23,519
Other	<u>10,769</u>	<u>242</u>
Total expenses	<u>423,685</u>	<u>285,076</u>
Net investment income	2,253,129	3,785,259
Realized and Unrealized Investment Gains (Losses)		
Net realized and unrealized investment gains (losses)	<u>(1,836,302)</u>	<u>36,723,293</u>
Net Increase in Net Assets Resulting from Operations		
	416,827	40,508,552
Distributions for endowment spending	(9,839,646)	(8,161,231)
Distributions for endowment assessments	(1,838,290)	(1,619,574)
Additional net investments	<u>17,030,480</u>	<u>10,329,979</u>
Increase in Net Assets		
	5,769,371	41,057,726
Net assets, beginning of year	<u>257,275,294</u>	<u>216,217,568</u>
Net assets, end of year	<u>\$ 263,044,665</u>	<u>\$ 257,275,294</u>

The accompanying notes are an integral part of the financial statements

UNIVERSITY OF ALASKA
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STATEMENTS OF CASH FLOWS
For the years ended June 30, 2012 and 2011

Cash flows from operating activities:	2012	2011
Net increase in net assets from operations	\$ 416,827	\$ 40,508,552
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Purchases of investments	(57,072,714)	(34,820,033)
Proceeds from distributions or sale of investments	45,212,791	25,585,842
Net realized and unrealized gain (loss) on investments	1,836,302	(36,723,293)
Net cash used in operating activities	(9,606,794)	(5,448,932)
 Cash flows from financing activities:		
Additional net investments	17,030,480	10,329,979
Spending distributions	(9,839,646)	(8,161,231)
Endowment assessments	(1,838,290)	(1,619,574)
Net cash provided by financing activities	5,352,544	549,174
 Net decrease in cash and cash equivalents	(4,254,250)	(4,899,758)
Cash and cash equivalents, beginning of year	17,357,870	22,257,628
Cash and cash equivalents, end of year	\$ 13,103,620	\$ 17,357,870

The accompanying notes are an integral part of the financial statements

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NOTES TO FINANCIAL STATEMENTS
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1. Organization

The Consolidated Endowment Fund (fund) was established July 1, 1997 to combine, for investment purposes, certain assets of the University of Alaska (university) Land-Grant Endowments and the University of Alaska Foundation (foundation) Pooled Endowment Fund. The fund is managed by the foundation through its investment committee and treasurer.

The university's Land-Grant Endowments consist of the Endowment Trust Fund, which is codified in Alaska Statute 14.40.400, and its companion Inflation-Proofing Fund. The source of the funding consists of income from the sale or lease of land granted to the university by an Act of Congress approved January 21, 1929, other gifts and bequests and funds dedicated to the purposes of the Endowment Trust Fund by the Board of Regents.

The Foundation Pooled Endowment Fund includes endowment and similar funds contributed to the foundation that do not have specific investment restrictions. Earnings from the Pooled Endowment Fund are primarily for the support of the university, subject to donor imposed restrictions.

Investments of the fund may be held in the name of the foundation, the university, the fund, or any fund or nominee as may be authorized by the foundation's treasurer.

In preparing the financial statements in conformity with US generally accepted accounting principles, management is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the statements of assets and liabilities and operations and changes in net assets for the period. Actual results may differ from those estimates and those differences could be material. The more significant accounting and reporting policies and estimates applied in the preparation of the accompanying financial statements are discussed below.

2. Summary of Significant Accounting Policies

The financial statements are prepared using the accrual basis of accounting.

Due to the endowment nature of the fund, all assets, including cash and cash equivalents, are considered non-current assets held for long-term investment. Cash and cash equivalents consist of highly liquid short-term investments including an overnight repurchase agreement and Rule 2a-7 qualified prime money market accounts.

The fund is managed under the "total return" concept of investment management intended to preserve and maintain the purchasing power of the principal. This approach emphasizes total investment return - traditional yield or investment income, and net realized and unrealized gains and losses.

The fund uses a unitized system to account for each participant's interest. Contributions to and withdrawals from the fund result in an increase or decrease in the number of units owned and are based on the unit value at the beginning of the month in which the contribution or withdrawal is made. Large additions to the fund are initially invested in cash and cash equivalents and dollar cost-averaged into the investment pool over a ten month period. Investment income, fees, and realized and unrealized gains and losses are allocated monthly to participating funds on a per unit basis. Investment income net of fees increases the number of units outstanding, while realized and unrealized gains and losses affect the per unit value.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

2. Summary of Significant Accounting Policies, continued

Investments

The overall investment objective of the fund is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to support, in perpetuity, the various purposes of the endowments that make up the fund. The fund diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by an Investment Committee of the foundation's Board of Trustees, which oversees the fund's investment program in accordance with established agreements.

The fund holds interests in traditional fixed income and equity securities through commingled funds, and also invests in alternative strategies, including various hedged and private capital funds. Investment funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Private capital funds include private equity and venture capital, energy and natural resources, mezzanine and distressed debt, and private real estate partnerships. Private capital strategies often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by investment fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of the fund's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets.

Fair Value Measurement

The fund follows the Financial Accounting Standards Board (FASB) guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, in markets that are either active or inactive. This includes alternative investments valued at net asset value or equivalent with a redemption period of 90 days or less.

Level 3 – Pricing inputs are unobservable for the asset or liability and are based on the fund's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 may include investments that are supported by little or no market activity.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

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2. Summary of Significant Accounting Policies, continued

The majority of the fund's investments are reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the fund's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2012 and 2011, the fund had no plans or intentions to sell investments at amounts different from NAV.

The following tables summarize the fund's investments by major category in the fair value hierarchy as of June 30, 2012 and 2011, as well as related strategy, liquidity and funding commitments:

	June 30, 2012				Redemption Frequency	Days' Notice
	Level 1	Level 2	Level 3	Total		
Fixed income securities:						
US core index fund	\$ -	\$ 33,295,554	\$ -	\$ 33,295,554	Daily	5
US Treasury index fund	-	17,814,164	-	17,814,164	Daily	5
	-	51,109,718	-	51,109,718		
Equity securities:						
Domestic index fund	-	45,041,565	-	45,041,565	Daily	5
Global index fund	-	25,686,876	-	25,686,876	Semi-monthly	5
Global value mutual fund	11,613,707	-	-	11,613,707	Daily	1
Global growth funds	-	11,661,492	-	11,661,492	Monthly	6-15
Multi-strategy hedged funds	-	5,691,608	5,096,310	10,787,918	Various (1)	90
Event arbitrage hedged fund	-	-	1,224,759	1,224,759	Illiquid (2)	N/A
Global REIT fund	-	3,203,119	-	3,203,119	Monthly	15
Emerging markets index fund	-	13,033,499	-	13,033,499	Semi-monthly	5
Private equity & venture funds	-	-	21,212,807	21,212,807	Illiquid (3)	N/A
Mezzanine & distressed debt funds	-	-	4,144,232	4,144,232	Illiquid (4)	N/A
	11,613,707	104,318,159	31,678,108	147,609,974		
Real assets:						
Real assets index fund	-	8,743,270	-	8,743,270	Semi-monthly	5
Multi-strategy commodities fund	-	1,646,224	-	1,646,224	Monthly	30
US private real estate funds	-	-	6,100	6,100	Illiquid (5)	N/A
Energy & natural resources funds	-	-	6,795,868	6,795,868	Illiquid (6)	N/A
Open-ended core real estate funds	-	8,580,708	-	8,580,708	Quarterly	30-60
	-	18,970,202	6,801,968	25,772,170		
Absolute return:						
Absolute return hedged funds	-	17,091,982	8,357,201	25,449,183	Various (7)	65-95
	-	17,091,982	8,357,201	25,449,183		
	<u>\$ 11,613,707</u>	<u>\$ 191,490,061</u>	<u>\$ 46,837,277</u>	<u>\$ 249,941,045</u>		

(1) One fund allows quarterly redemptions, one fund allows annual redemptions next available December 2012.

(2) Fund is in liquidation. Timing of redemption proceeds is unknown.

(3) Funds are expected to liquidate within 1-15 years. Unfunded future commitments total \$10.17 million.

(4) Funds are expected to liquidate within 1-7 years. Unfunded future commitments total \$0.83 million.

(5) Funds are expected to liquidate within 1-3 years. Unfunded future commitments total \$0.05 million.

(6) Funds are expected to liquidate within 1-15 years. Unfunded future commitments total \$3.69 million.

(7) One fund allows monthly redemptions, one fund allows quarterly redemptions, one fund allows semi-annual redemptions next available December 2012.

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2. Summary of Significant Accounting Policies, continued

	June 30, 2011				Redemption Days'	
	Level 1	Level 2	Level 3	Total	Frequency	Notice
Fixed income securities:						
US core index fund	\$ -	\$ 33,095,642	\$ -	\$ 33,095,642	Daily	5
US Treasury index fund	-	17,876,388	-	17,876,388	Daily	5
	-	50,972,030	-	50,972,030		
Equity securities:						
Domestic index fund	-	56,084,887	-	56,084,887	Daily	5
Global index fund	-	25,995,202	-	25,995,202	Semi-monthly	5
Global value mutual fund	11,408,036	-	-	11,408,036	Daily	1
Global growth funds	-	24,569,487	-	24,569,487	Monthly	6-15
Multi-strategy hedged funds	-	6,146,616	5,439,403	11,586,019	Various (1)	90
Event arbitrage hedged fund	-	-	1,627,368	1,627,368	Illiquid (2)	N/A
Global REIT fund	-	3,102,858	-	3,102,858	Monthly	15
Emerging markets index fund	-	13,029,334	-	13,029,334	Semi-monthly	5
Private equity & venture funds	-	-	22,628,157	22,628,157	Illiquid (3)	N/A
Mezzanine & distressed debt funds	-	-	5,323,200	5,323,200	Illiquid (4)	N/A
	11,408,036	128,928,384	35,018,128	175,354,548		
Real assets:						
Multi-strategy commodities fund	-	1,901,842	-	1,901,842	Monthly	30
US private real estate fund	-	-	15,730	15,730	Illiquid (5)	N/A
Energy & natural resources funds	-	-	6,910,307	6,910,307	Illiquid (6)	N/A
Open-ended core real estate funds	-	-	-	-	(7)	
	-	1,901,842	6,926,037	8,827,879		
Absolute return:						
Absolute return hedged fund	-	4,762,967	-	4,762,967	Quarterly	60
	-	4,762,967	-	4,762,967		
	<u>\$ 11,408,036</u>	<u>\$ 186,565,223</u>	<u>\$ 41,944,165</u>	<u>\$ 239,917,424</u>		

(1) One fund allows quarterly redemptions, one fund allows annual redemptions next available December 2012.

(2) Fund is in liquidation. Timing of redemption proceeds is unknown.

(3) Funds are expected to liquidate within 1-9 years. Unfunded future commitments total \$8.18 million.

(4) Funds are expected to liquidate within 1-6 years. Unfunded future commitments total \$0.86 million.

(5) Funds are expected to liquidate within 1 year. Unfunded future commitments total \$0.05 million.

(6) Funds are expected to liquidate within 1-8 years. Unfunded future commitments total \$1.48 million.

(7) Unfunded future commitments total \$8.0 million.

The fund's registered mutual fund is classified in Level 1 of the fair value hierarchy because its fair value is based on quoted market prices. Most investments classified in Levels 2 and 3 consist of shares or units in non-registered investment funds as opposed to direct interests in the funds' underlying securities, some of which are marketable or not difficult to value. Because each investment fund's reported NAV is used as a practical expedient to estimate the fair value of the fund's interest therein, the level in which an investment fund's fair value measurement is classified is based on the fund's ability to redeem its interest at or near the date of the statement of assets and liabilities. Accordingly, the inputs or methodology used for valuing or classifying investments for

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2. Summary of Significant Accounting Policies, continued

financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each investment fund's underlying assets and liabilities.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The fund evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. For the year ended June 30, 2011, the fund reported one significant transfer from Level 2 to Level 3. ASC 820, as amended by ASU 2009-12, provides that investments redeemable at net asset value in the near term may be classified as Level 2. AICPA Technical Practice Aid 2220.18-.27 defines a redemption period of 90 days or less as 'near term'. This transfer between levels was due to a redemption period of greater than 90 days. There were no transfers between levels during the year ended June 30, 2012.

The following table presents the fund's activities for the years ended June 30, 2012 and 2011 for investments classified in Level 3:

	Equity Securities	Real Assets	Absolute Return	Total
Balance, July 1, 2010	\$ 28,760,694	\$ 6,294,162	\$ -	\$ 35,054,856
Transfers in from Level 2	4,988,914	-	-	4,988,914
Additions	2,332,468	457,500	-	2,789,968
Withdrawals	(7,870,812)	(682,113)	-	(8,552,925)
Net investment income (losses)	157,337	(81,146)	-	76,191
Net realized gains (losses)	1,917,609	(3,765,088)	-	(1,847,479)
Change in net unrealized gains	4,731,918	4,702,722	-	9,434,640
Balance, June 30, 2011	\$ 35,018,128	\$ 6,926,037	\$ -	\$ 41,944,165
Additions	2,525,499	787,500	8,200,000	11,512,999
Withdrawals	(6,337,859)	(1,214,400)	-	(7,552,259)
Net investment income (losses)	(126,644)	84,168	(57,394)	(99,870)
Net realized gains	1,784,789	208,472	-	1,993,261
Change in net unrealized gains (losses)	(1,185,805)	10,191	214,595	(961,019)
Balance, June 30, 2012	<u>\$ 31,678,108</u>	<u>\$ 6,801,968</u>	<u>\$ 8,357,201</u>	<u>\$ 46,837,277</u>

The amount of net unrealized losses related to Level 3 assets still held at June 30, 2012 is approximately \$1.0 million and is included in the net realized and unrealized investment gains in the statement of operations and changes in net assets.

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2. Summary of Significant Accounting Policies, continued

Private capital investments are generally made through limited partnerships. Under the terms of such agreements, the fund may be required to provide additional funding when capital or liquidity calls are made by investment fund managers. These partnerships have a limited existence, and they may provide for annual extensions for the purpose of disposing of portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, a manager may extend the terms of an investment fund beyond its originally anticipated existence or may wind it down prematurely. The fund cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur they could reduce liquidity or originally anticipated investment returns. Accordingly, the timing and amount of future capital or liquidity calls in any particular future year are uncertain. Several of the fund's private capital investments are in mature stages where wind down or liquidation is likely in the next several years. The fund's hedge funds also have liquidity limitations including two funds with quarterly redemptions and another with annual redemptions each December.

Investment liquidity as of June 30, 2012 is aggregated below based on redemption or sale period:

<u>Redemption Period</u>	<u>Amounts</u>	<u>Fiscal Year</u>	<u>Amounts</u>
Daily	\$ 107,764,989	2013	\$ 222,773,861
Semi-Monthly	47,463,644	2014	5,288,027
Monthly	24,899,446	2015	1,800,928
Quarterly	22,523,646	2016	3,452,432
Semi-Annually	8,357,201	2017	9,261,326
Annually	5,096,311	2018	-
Illiquid	33,835,808	Thereafter	7,364,471
	<u>\$ 249,941,045</u>		<u>\$ 249,941,045</u>

Income Taxes

The fund itself is not subject to federal or state income taxes and, therefore, no provision for income taxes has been made in the accompanying financial statements. The participants in the fund are subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. Any income tax provision from an unrelated trade or business would be recorded in the financial statements of each participant.

Subsequent Events

The fund has evaluated subsequent events and transactions that occurred after June 30, 2012 through the date the financial statements were available to be issued, concluding October 15, 2012. The fund is heavily dependent upon the investment markets and is subject to the volatility exhibited in these markets.

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NOTES TO FINANCIAL STATEMENTS
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3. Asset Allocation

The asset allocation of the fund's investments was as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	5.0%	6.7%
Fixed income	19.4%	19.8%
Equities, domestic	17.1%	21.8%
Equities, global	24.4%	30.4%
Equities, emerging markets	5.0%	5.1%
Equities, private	9.6%	10.9%
Real assets	9.8%	3.4%
Absolute return	9.7%	1.9%
	<u>100%</u>	<u>100%</u>

4. Changes in Net Asset Balances

Changes in net asset balances by participant were as follows:

	<u>Foundation</u>	<u>University</u>	<u>Total</u>
Balance, July 1, 2010	\$ 102,012,001	\$ 114,205,567	\$ 216,217,568
Net increase from operations	19,330,511	21,178,041	40,508,552
Distributions for spending	(3,313,940)	(4,847,291)	(8,161,231)
Distributions for assessments	(1,022,234)	(597,340)	(1,619,574)
Additional net investments (withdrawals)	<u>14,846,937</u>	<u>(4,516,958)</u>	<u>10,329,979</u>
Balance, June 30, 2011	131,853,275	125,422,019	257,275,294
Net increase from operations	341,450	75,377	416,827
Distributions for spending	(4,787,727)	(5,051,919)	(9,839,646)
Distributions for assessments	(1,211,665)	(626,625)	(1,838,290)
Additional net investments	<u>11,623,574</u>	<u>5,406,906</u>	<u>17,030,480</u>
Balance, June 30, 2012	<u>\$ 137,818,907</u>	<u>\$ 125,225,758</u>	<u>\$ 263,044,665</u>

5. Distributions

Distributions from the fund are based on spending policies established by each participant and assessments charged by the foundation to cover administrative and fundraising expenses.