



DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

DUCKS UNLIMITED, INC. AND AFFILIATE

Table of Contents

	Page
Independent Auditors' Report	1
Combined Financial Statements:	
Combined Balance Sheets	2
Combined Statements of Activities	3
Combined Statements of Unrestricted Support and Revenues and Expenses	4
Combined Statements of Cash Flows	5
Notes to Combined Financial Statements	6



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Independent Auditors' Report

The Board of Directors
Ducks Unlimited, Inc. and Affiliate:

We have audited the accompanying combined balance sheets of Ducks Unlimited, Inc. and Affiliate (the Organization) as of June 30, 2010 and 2009, and the related combined statements of activities, unrestricted support and revenues and expenses, and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined 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 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 Organization'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 combined financial statements referred to above present fairly, in all material respects, the financial position of Ducks Unlimited, Inc. and Affiliate as of June 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

December 14, 2010

DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Balance Sheets

June 30, 2010 and 2009

Assets	2010	2009
Cash and cash equivalents	\$ 19,509,014	11,722,126
Events receivable, net	802,572	906,805
Pledges receivable, net	19,671,704	24,042,837
Habitat conservation and other receivables, net of allowance for doubtful accounts of \$275,000 at June 30, 2010 and 2009	23,468,797	17,186,740
Event merchandise inventory	3,802,579	5,617,810
Investments	25,101,921	16,405,878
Land held for conservation purposes	12,664,652	12,453,452
Land, buildings, and equipment, net	9,325,870	10,026,918
Other assets	2,795,563	2,959,502
Total assets	<u>\$ 117,142,672</u>	<u>101,322,068</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 13,579,929	9,463,293
Compensation and related accruals	5,142,170	3,836,293
Mortgage payable	—	172,000
Pension and deferred compensation accruals	15,661,816	18,007,373
Accrued postretirement benefits	3,676,955	3,983,085
Other liabilities	598,686	623,415
Total liabilities	<u>38,659,556</u>	<u>36,085,459</u>
Net assets:		
Unrestricted	3,240,620	(1,567,513)
Temporarily restricted	65,034,938	60,058,693
Permanently restricted	10,207,558	6,745,429
Total net assets	<u>78,483,116</u>	<u>65,236,609</u>
Total liabilities and net assets	<u>\$ 117,142,672</u>	<u>101,322,068</u>

See accompanying notes to combined financial statements.

DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Statements of Activities

Years ended June 30, 2010 and 2009

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net assets</u>
Net assets at June 30, 2008	\$ 10,941,692	58,601,512	5,641,813	75,185,017
Support and revenues:				
Unrestricted support and revenues	164,406,246	—	—	164,406,246
Restricted support and revenues:				
Major conservation gifts	—	32,565,100	644,315	33,209,415
Investment return on permanent endowments, net	—	(1,342,435)	—	(1,342,435)
Habitat reimbursements	—	7,516,821	—	7,516,821
Other revenues	—	339,738	—	339,738
Net assets released from restrictions and other reclassifications:				
Program restrictions satisfied	33,524,280	(33,524,280)	—	—
Expiration of time restrictions	2,976,496	(2,976,496)	—	—
Other reclassifications	(459,301)	—	459,301	—
Total support and revenues	200,447,721	2,578,448	1,103,616	204,129,785
Total expenses	204,718,652	—	—	204,718,652
Excess (deficiency) of support and revenues over expenses	(4,270,931)	2,578,448	1,103,616	(588,867)
Other changes in net assets:				
Loss on uncollectable pledges	—	(1,121,267)	—	(1,121,267)
Pension and postretirement benefit liability adjustments other than net periodic costs	(8,238,274)	—	—	(8,238,274)
Total change in net assets	(12,509,205)	1,457,181	1,103,616	(9,948,408)
Net assets at June 30, 2009	(1,567,513)	60,058,693	6,745,429	65,236,609
Support and revenues:				
Unrestricted support and revenues	126,825,632	—	—	126,825,632
Restricted support and revenues:				
Major conservation gifts	—	37,738,661	3,462,129	41,200,790
Investment return on permanent endowments, net	—	597,103	—	597,103
Habitat reimbursements	—	8,867,218	—	8,867,218
Other revenues	—	1,098,366	—	1,098,366
Net assets released from restrictions and other reclassifications:				
Program restrictions satisfied	37,696,274	(37,696,274)	—	—
Expiration of time restrictions	2,180,562	(2,180,562)	—	—
Total support and revenues	166,702,468	8,424,512	3,462,129	178,589,109
Total expenses	159,363,256	—	—	159,363,256
Excess of support and revenues over expenses	7,339,212	8,424,512	3,462,129	19,225,853
Other changes in net assets:				
Loss on uncollectable pledges	—	(3,448,267)	—	(3,448,267)
Pension and postretirement benefit liability adjustments other than net periodic costs	(2,531,079)	—	—	(2,531,079)
Total change in net assets	4,808,133	4,976,245	3,462,129	13,246,507
Net assets at June 30, 2010	\$ 3,240,620	65,034,938	10,207,558	78,483,116

See accompanying notes to combined financial statements.

DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Statements of Unrestricted Support and Revenues and Expenses

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Unrestricted support and revenues:		
Proceeds from committee events	\$ 30,154,664	36,345,754
Members' and sponsors' proceeds from events	17,335,279	17,334,222
Less:		
Cost of event merchandise	17,706,741	22,035,108
State operating allowances	596,770	563,615
Net proceeds from committee events	<u>29,186,432</u>	<u>31,081,253</u>
Nonevent membership	11,491,007	10,801,236
Major conservation gifts	32,724,197	29,309,242
Revolving land fund contributions	620,000	1,757,682
Planned gift maturities	1,242,493	917,378
Donated conservation easements	20,998,730	65,697,887
Federal and state habitat reimbursements	61,766,427	56,749,054
Advertising revenue	2,003,570	2,821,796
Royalties	4,045,846	4,616,176
Investment return	1,663,000	(3,673,751)
Other revenues	960,766	369,768
Total unrestricted support and revenues	<u>166,702,468</u>	<u>200,447,721</u>
Program service expenses:		
Waterfowl conservation:		
U.S. conservation	83,973,768	81,552,125
Conservation easements	20,998,730	65,697,887
Government relations	793,838	708,567
Ducks Unlimited Canada	7,808,401	10,175,293
Ducks Unlimited de Mexico	509,874	556,125
Conservation education	12,703,165	13,132,059
Membership services	2,804,787	3,491,482
Total program service expenses	<u>129,592,563</u>	<u>175,313,538</u>
Supporting service expenses:		
Fund-raising – field operations and development	15,558,777	15,644,293
Membership development	10,142,974	9,553,862
Administration and human resources	4,068,942	4,206,959
Total supporting service expenses	<u>29,770,693</u>	<u>29,405,114</u>
Total expenses	<u>159,363,256</u>	<u>204,718,652</u>
Excess (deficiency) of unrestricted support and revenues over expenses	<u>\$ 7,339,212</u>	<u>(4,270,931)</u>

See accompanying notes to combined financial statements.

DUCKS UNLIMITED, INC. AND AFFILIATE

Combined Statements of Cash Flows

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 13,246,507	(9,948,408)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Noncash contributions	(507,040)	(743,363)
Contributions restricted for investment in endowment	(3,462,129)	(644,315)
Depreciation	1,549,214	1,901,191
Gain on disposition of conservation lands	(753,650)	(174,316)
Loss on disposition of equipment	77,044	8,976
Net realized and unrealized (gains) losses on investments	(1,906,302)	5,065,988
Pension and postretirement benefit liability adjustments	2,531,079	8,238,274
Postretirement benefit liability adjustment credited to net periodic cost	—	(3,405,753)
Changes in operating assets and liabilities:		
Events receivable	104,233	45,022
Pledges receivable	4,371,133	2,461,708
Habitat conservation and other receivables	(6,282,057)	(1,144,093)
Event merchandise inventory	1,815,231	1,289,637
Other assets	670,979	391,942
Accounts payable and accrued expenses	4,089,865	(2,117,808)
Compensation and related accruals	1,305,877	217,016
Pension and deferred compensation accruals	(3,731,282)	(2,204,228)
Accrued postretirement benefits	(1,451,484)	72,786
Other liabilities	(24,729)	(33,654)
Net cash provided by (used in) operating activities	<u>11,642,489</u>	<u>(723,398)</u>
Cash flows from investing activities:		
Purchases of investments	(7,718,810)	(4,105,724)
Proceeds from sale of investments	929,069	6,027,293
Building and equipment purchases	(898,439)	(1,246,621)
Investments in conservation lands	(2,870,049)	(2,567,280)
Proceeds from sales of conservation lands	3,412,499	1,408,250
Net cash used in investing activities	<u>(7,145,730)</u>	<u>(484,082)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for endowment	3,462,129	644,315
Repayments of borrowings on operating line of credit	(16,000,000)	(17,000,000)
Proceeds from borrowings on operating line of credit	16,000,000	17,000,000
Repayments of mortgage payable	(172,000)	(180,208)
Net cash provided by financing activities	<u>3,290,129</u>	<u>464,107</u>
Net increase (decrease) in cash and cash equivalents	7,786,888	(743,373)
Cash and cash equivalents at beginning of year	<u>11,722,126</u>	<u>12,465,499</u>
Cash and cash equivalents at end of year	\$ <u>19,509,014</u>	\$ <u>11,722,126</u>
Supplemental disclosure of noncash transactions:		
Note receivable for sale of land	\$ —	1,269
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 132,120	143,540

See accompanying notes to combined financial statements.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

(1) Nature of Activities

Ducks Unlimited, Inc. (DUI) is an internationally supported, nonprofit conservation organization incorporated under the laws of the District of Columbia in 1937. DUI conserves, restores, and manages wetlands and associated habitats for North America's waterfowl. These habitats also benefit other wildlife and people.

Wetlands America Trust, Inc. (WAT) is a nonprofit organization formed in 1985 to support the mission of DUI in providing leadership in the protection of the natural balance of wetland ecosystems, ensuring the future viability of waterfowl and other wetland wildlife in the United States. WAT operates exclusively for the benefit of DUI and complements DUI's domestic habitat programs in harmony with DUI's conservation priorities. WAT is also a fiduciary for DUI and manages endowments and revolving funds. DUI is the sole member of WAT.

DUI and WAT's primary sources of revenue are contributions from the public, including gifts of land, investment income, and government grants. These resources are used to conserve portfolios of functional conservation areas across North America.

The Internal Revenue Service has ruled that both DUI and WAT qualify under the provisions of Section 501(c)(3) of the Internal Revenue Code as organizations created for charitable, educational, and scientific purposes and, therefore, are exempt from federal income taxes on related income. Donations to DUI and WAT are deductible by the donor as charitable contributions for federal income tax purposes. Management is not aware of any course of action or series of events that have occurred that might adversely affect this tax-exempt status.

(2) Significant Accounting Policies

(a) *Principles of Combination*

The combined financial statements include the accounts of DUI and WAT, hereinafter referred to collectively as DU or the Organization. Significant accounts and transactions between DUI and WAT have been eliminated in combination.

(b) *Cash Equivalents*

Cash equivalents are highly liquid investments with a maturity of three months or less when purchased.

(c) *Pledges Receivable*

Pledges receivable represent promises from DU supporters to make contributions to DU in future periods under various major donor programs, which generally provide for payments over four to seven years. Pledges are reported at the net present value of the estimated future cash flows.

(d) *Inventory*

Event merchandise inventory is valued at the lower of cost or market, using the first-in, first-out method. Slow moving or potentially obsolete inventory items are written down to net realizable value.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

(e) ***Investments***

Investments with readily determinable market values are reported based on the last reported sales price at the end of the fiscal year or, in the absence of a reported sale, on the average of the bid and ask price. Investments in private equity and hedge funds are reported at the proportionate share of the estimated fair values of the underlying investments. Those fair values, which are estimated by the general partners or investment managers, are evaluated for reasonableness by the Organization's management, and may differ from the values that would have been used had a ready market existed for those investments. Investment income from permanently restricted endowment funds is treated as temporarily restricted net assets until appropriated for use. Investment income on all other investments is credited directly to unrestricted net assets unless otherwise restricted by the donor.

DU has adopted the provisions of Accounting Standards Codification (ASC) Topic 820 for Fair Value Measurements and Disclosures (ASC Topic 820). ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into the following three levels, based on the reliability of inputs:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are observable at the measurement date;

Level 2: Significant 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; and

Level 3: Significant unobservable inputs for the asset or liability that reflect the reporting entity's own estimates about the assumptions that market participants would use in pricing the asset or liability.

(f) ***Land Held for Conservation Purposes***

Land held for conservation purposes includes purchased or donated properties to be sold or transferred to governmental agencies or other conservation-minded individuals and organizations for conservation purposes. Purchased land and easements are stated at the lesser of cost or fair market value. Donated properties are recorded at their appraised values at the date of contribution.

(g) ***Land, Buildings, and Equipment***

Land, buildings, and equipment are stated at cost. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss on retirement or disposal of the individual assets is recorded as revenue or expense.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	10 – 40 years
Building improvements	5 – 15 years
Computer equipment	3 – 5 years
Furnishings and equipment	5 – 10 years

DU periodically reviews the recoverability of long-lived assets. If facts or circumstances indicate the possibility of impairment, DU will prepare a projection of the undiscounted future cash flows of the specific assets and determine if the recorded value is recoverable or if an adjustment to the carrying value of the assets is necessary. DU does not believe that there were any facts or circumstances that indicated an impairment of recorded land, buildings, or equipment as of June 30, 2010 or 2009.

(h) Charitable Gift Annuities

DU has received several gifts that, pursuant to the gift agreements, require DU to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. The amount recorded as a contribution at the time the gift is made is the difference between the amount of the gift and the present value of the donor stipulated payments to be made by DU as of the date of the gift. DU's liability under these arrangements, which is recorded as a component of other liabilities in the accompanying combined balance sheets, is recorded at the net present value of the remaining donor stipulated payments and is adjusted annually.

(i) Net Assets

DU reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit their use. When a donor restriction is satisfied, that is, when a stipulated time restriction expires or program restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions.

DU classifies donor-restricted contributions as unrestricted support if those restrictions are satisfied in the same reporting period. DU recognizes contributions of collectibles (for example, works of art or similar assets that are held for public exhibition or education) as unrestricted support, unless restricted by the donor.

Temporarily restricted net assets represent pledges receivable that are restricted by time and/or purpose restrictions, habitat conservation gifts that are restricted by donor stipulation, and unappropriated appreciation on donor-restricted endowment funds.

Permanently restricted net assets represent endowments restricted by donors, the income from which is expendable for conservation efforts specific to donor stipulations.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

(j) Conservation Easements

Conservation easements represent rights to restrict the use, access, and development of certain properties. Unrestricted support and expenses are recognized in equal amounts based upon the appraised value of the easement. DU is obligated to monitor easements to ensure that the restrictions are maintained. DU monitors these easements in the normal course of its operations and associated costs are expensed as incurred.

The estimated value of easements is not included in the combined balance sheets because the easements do not represent a future economic benefit to the Organization.

(k) Pension and Postretirement Benefit Plans

DU records the overfunded or underfunded status of benefit plans on its combined balance sheet. Changes in funded status other than net periodic cost are recognized as other changes in net assets in the year in which the change occurs. DU engages a third-party actuary to perform computations necessary to record its pension and postretirement plan-related balances.

(l) Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the combined statements of unrestricted support and revenues and expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(m) Grants and Cooperative Agreements

DU receives grants and contracts from federal and state agencies, as well as from private organizations, to be used for specific programs or land purchases. Any excess of reimbursable expenditures over cash receipts is included in habitat conservation receivables. For grants and contracts in which cash is received prior to the incurrence of related costs, such amounts are generally reflected in temporarily restricted net assets until the related costs are incurred.

DU's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowed costs, if any, would not be material to the accompanying combined balance sheets or combined statements of activities of DU.

(n) 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 in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates are used primarily in the recording of the allowance for uncollectible pledges receivable, the discounting of pledges receivable, determining the fair value of certain investments, estimates relating to the pension and other postretirement plans, and reserves for self-insurance.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

(o) Donor-restricted endowment funds

Effective July 1, 2007, the State of Tennessee enacted its version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to funds existing on or established after that date. Under the provisions of UPMIFA, organizations are required to maintain and report endowment funds based upon donor intent, whether explicit or implied. Based on its interpretation of the provisions of UPMIFA and a review of underlying endowment agreements, management has determined that reporting the historic dollar value of donor-restricted endowments as permanently restricted net assets is appropriate and consistent with the intent of DU's donors.

(p) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. Certain categories of support and revenues reported in the combined statements of activities for the year ended June 30, 2009 have been adjusted to correct classification errors that resulted in the previously reported amounts being incorrectly grossed up. These classification errors did not impact reported total support and revenues or any other amounts reported in the prior year.

(q) Subsequent Events

DU adopted the provisions of ASC Topic 855, *Subsequent Events* (ASC 855), during the year ended June 30, 2010. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The adoption of this standard did not impact DU's consolidated financial position or results of operations. DU evaluated all events or transactions that occurred after June 30, 2010 through December 14, 2010, the date these financial statements were available to be issued.

(3) Fund-Raising Events

DU raises funds to support its conservation mission through fund-raising events in communities throughout the United States. During the years ended June 30, 2010 and 2009, DU volunteers hosted approximately 4,500 and 4,600, respectively, grassroots fund-raising events, such as member and sponsor banquets, shooting and fishing tournaments, and golf outings. Chapters are chartered by DU and operate as unincorporated associations to support DU in the local community. Local chapters remit proceeds of these events (net of direct expenses incurred by the chapter in sponsoring and conducting the event) to DU, and provide reports of receipts and direct expenses. Because the financial transactions of local committees are controlled by the volunteers, net amounts to be remitted to DU are recorded as event receivables in the combined balance sheets and net proceeds from committee events in the accompanying combined statements of unrestricted support and revenues and expenses.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

The following unaudited gross proceeds and unaudited direct expenses incurred by DU chapters in conducting these events are based on reports provided by the host chapters for each event.

	For the year ended June 30,	
	2010	2009
	<u> </u>	<u> </u>
Gross proceeds reported by DU chapters (unaudited)	\$ 73,814,779	82,164,340
Expenses incurred by DU chapters (unaudited)	<u>(26,324,836)</u>	<u>(28,484,364)</u>
Proceeds of events remitted to DU	47,489,943	53,679,976
Less cost of event merchandise	(17,706,741)	(22,035,108)
Less state operation allowances	<u>(596,770)</u>	<u>(563,615)</u>
Net proceeds from committee events	<u>\$ 29,186,432</u>	<u>31,081,253</u>

(4) Investments

The composition of investments is as follows at June 30:

	2010	2009
	<u> </u>	<u> </u>
Equities:		
Large-Cap value	\$ 5,700,767	2,569,586
Large-Cap growth	5,575,343	3,238,630
Small and Mid Cap value	2,170,730	2,530,295
Small and Mid Cap growth	2,189,237	1,430,926
International	2,516,218	1,907,419
Real estate	163,943	201,555
Fixed income	5,838,849	4,153,311
Commodities	555,387	—
Private equity and hedge funds	<u>391,447</u>	<u>374,156</u>
	<u>\$ 25,101,921</u>	<u>16,405,878</u>

At June 30, 2010, DU was committed to fund additional amounts to a private equity fund totaling up to approximately \$176,000.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

The composition of investment return is as follows for the years ended June 30:

	2010	2009
Net realized and unrealized investment gains (losses):		
Unrestricted	\$ 1,402,936	(3,718,901)
Temporarily restricted	503,366	(1,347,087)
	1,906,302	(5,065,988)
Interest and dividend income:		
Unrestricted	260,064	45,150
Temporarily restricted	93,737	4,652
	353,801	49,802
	\$ 2,260,103	(5,016,186)

(5) Pledges Receivable

Pledges receivable are summarized as follows at June 30:

	2010	2009
Amounts due:		
Less than 1 year	\$ 14,470,654	15,056,892
1 to 5 years	11,551,909	13,456,035
Greater than 5 years	1,359,881	1,529,972
	27,382,444	30,042,899
Less allowance for uncollectible pledges	(6,754,775)	(4,809,362)
Less unamortized present value discount	(955,965)	(1,190,700)
	\$ 19,671,704	24,042,837

Pledges receivable are discounted using rates ranging from 0.7% to 6.0% for 2010 and 0.8% to 6.0% for 2009. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance is recorded for uncollectible pledges based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

(6) Land Held for Conservation Purposes

Land held for conservation purposes is as follows at June 30, 2010:

<u>Property</u>	<u>Acres protected</u>	<u>Location</u>	<u>Carrying value</u>
Cosumnes River Preserve	242	California	\$ 534,691
Davey Complex	160	Colorado	105,767
Goebel Ranch	9,455	South Dakota	2,108,684
Haerter/Heckenliable Complex	240	South Dakota	84,526
Ipswich Grasslands Complex	550	South Dakota	37,590
Long Lake Complex	3,597	South Dakota	1,676,909
Minden SW Complex	319	Nebraska	107,158
Prairie Marsh Complex	200	Nebraska	344,304
Ritterbush Complex	162	Nebraska	—
Union Ditch Complex (Water Rights)	—	Colorado	145,489
Verona Complex	1,285	Nebraska	384,873
Kirkpatrick Basin South	95	Nebraska	244,436
Weil Tract	70	South Carolina	63,000
Bowdle Complex	1,025	South Dakota	900,233
Holdrege Complex	165	Nebraska	112,000
Coteau Ranch (Peacock) Complex	3,120	North Dakota	1,649,076
Straightwater Complex	155	Nebraska	114,955
Julesberg Complex	850	Colorado	654,030
Martin Complex	952	North Dakota	500,012
Little Sandy Complex	160	Nebraska	256,366
Lower Sangamon Complex	232	Illinois	250,782
Farnham Complex	49	Minnesota	70,581
North Bend Complex	168	Nebraska	570,000
Butler Complex	80	Nebraska	184,160
Phelps Complex	232	Nebraska	305,793
Cochran Complex	20	Minnesota	13,000
North Platt River Complex	519	Nebraska	1,246,238
	<u>24,102</u>		<u>\$ 12,664,652</u>

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

(7) Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Land	\$ 1,405,264	1,405,264
Buildings and improvements:		
Memphis Headquarters	8,976,373	8,917,182
Western Regional Office	936,680	953,440
Great Plains Regional Office	2,175,422	2,175,422
Furnishings and equipment	<u>16,831,136</u>	<u>17,321,300</u>
	30,324,875	30,772,608
Less allowances for depreciation	<u>(20,999,005)</u>	<u>(20,745,690)</u>
	<u>\$ 9,325,870</u>	<u>10,026,918</u>

(8) Debt

(a) Line of Credit

DU has an operating line of credit agreement (the Credit Agreement), which expires on December 31, 2010 and provides for seasonal borrowing needs, subject to borrowing base availability, up to the following maximum amounts:

<u>Amount</u>	<u>Time frame</u>
\$12,000,000	July 1, 2009 to November 30, 2009
\$15,000,000	December 1, 2009 to December 31, 2009
\$15,000,000	January 1, 2010 to March 31, 2010
\$12,000,000	April 1, 2010 to November 30, 2010
\$15,000,000	December 1, 2010 to December 31, 2010

The borrowing rate on the Credit Agreement is the lesser of the lender's maximum variable rate of interest or a rate equal to the base commercial rate of interest. As of June 30, 2010, the borrowing rate was 3.25%. The Credit Agreement contains certain restrictions limiting DU's ability to incur additional indebtedness, enter into merger, consolidation, sale, or acquisition activities other than in the normal course of business. The Credit Agreement also prohibits DU from granting any security interest in its inventory, pledges, other receivables, investments, and fixed assets. There were no amounts outstanding under the Credit Agreement as of June 30, 2010 and 2009.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

(b) *Mortgage Obligation*

The mortgage obligation was secured by DU's office building in Bismarck, North Dakota, matured on May 18, 2010, and had a stated interest rate of 8.73%. In conjunction with securing the mortgage obligation, DU entered into an agreement with the State of North Dakota, which provided for a subsidy to the required interest payments on the obligation in return for DU agreeing to create and maintain a minimum of 18 jobs in the state during the term of the mortgage. The effective interest rate on the obligation, net of the state subsidy, was 4.50%.

(9) *Concentration of Credit Risk*

DU had deposits with financial institutions that exceeded federal depository insurance limits by approximately \$6,808,000 and \$7,282,000 at June 30, 2010 and 2009, respectively. DU has not experienced any losses on cash deposits and management considers the risk of loss to be minimal. Additionally, DU's investment consultant monitors the credit rating of each of its financial institutions.

(10) *Benefit Plans*

DU has a defined benefit pension plan (the Pension Plan), which covers all full-time and certain eligible part-time employees. For employees hired prior to January 1, 1998, monthly retirement benefits are calculated as 2% of each employee's average monthly compensation for the highest consecutive 36 months of compensation out of the last 120 months of employment multiplied by their years of service, offset by a percentage of their primary social security benefits. For employees hired on January 1, 1998 through September 30, 2002, monthly retirement benefits are calculated as 1% of each employee's average monthly compensation for the highest consecutive 36 months of compensation out of the last 120 months of employment multiplied by their years of service up to a maximum of 25 years. Additionally, for employees hired on January 1, 1998 through September 30, 2002, the sum of their calculated retirement benefit and primary social security benefit cannot exceed 75% of their average monthly compensation. Employees hired on or subsequent to October 1, 2002, receive a cash balance benefit equal to 2% of their annual compensation plus interest based on the 10-year treasury yield. Employees are vested 100% in the plan after five years of service. DU contributes such amounts as are necessary to maintain the plan as a qualified pension plan under the Employee Retirement Income Security Act of 1974, as amended.

DU also sponsors unfunded defined benefit healthcare and life insurance plans (the Postretirement Medical and Life Plans) that provide postretirement benefits to full-time employees who have worked at least 10 years for DU. To qualify for benefits under the health and life insurance plans, employees must have attained ages of at least 62 and 55, respectively, while in service with DU. In April 2009, DU amended the Postretirement Medical and Life Plans to eliminate life insurance benefits provided to retirees; to eliminate retiree health coverage for all current, former, and future employees of DU, except for participants over the age of 58 as of May 1, 2009, or certain senior level management positions held as of May 1, 2009; and to require that retirees pay a portion of the monthly premium cost.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

Information with respect to the plans was as follows at June 30:

	Pension		Postretirement medical and life	
	2010	2009	2010	2009
Change in benefit obligation:				
Benefit obligation at beginning of the year	\$ 48,572,886	48,073,028	3,983,085	10,358,854
Service cost	2,593,709	2,576,496	75,756	482,711
Interest cost	2,673,784	2,906,095	156,104	531,648
Plan amendments	—	87,357	—	(7,515,374)
Actuarial (gain) loss	3,304,319	219,460	(105,166)	555,197
Benefits paid	(3,625,929)	(5,289,550)	(432,824)	(429,951)
Benefit obligation at end of the year	53,518,769	48,572,886	3,676,955	3,983,085
Change in plan assets:				
Plan assets at fair value at beginning of the year	33,055,894	41,896,291	—	—
Actual return on plan assets	4,325,636	(8,550,847)	—	—
Employer contributions	6,000,000	5,000,000	432,824	429,951
Benefits paid	(3,625,929)	(5,289,550)	(432,824)	(429,951)
Plan assets at fair value at end of the year	39,755,601	33,055,894	—	—
Funded status:				
Benefit obligation in excess of plan assets	\$ (13,763,168)	(15,516,992)	(3,676,955)	(3,983,085)

Assumptions used in the actuarial determination of the projected benefit obligation were as follows at June 30:

	Pension		Postretirement medical and life	
	2010	2009	2010	2009
Discount rate	5.13%	5.75%	3.25%	4.25%
Expected long-term rate of return on plan assets	7.50	7.50	—	—
Rate of compensation increase	4.00	4.00	—	—
Healthcare cost trend rate	—	—	10.00	9.00

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

The expected long-term rate of return on plan assets reflects DU's expectations of long-term average rates of return on funds invested to provide benefits included in the projected benefit obligation. In developing the expected long-term rate of return assumption, DU evaluated input from its third-party actuarial and investment firms and considered other factors, including inflation, interest rates, peer data, and historical returns.

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (healthcare cost trend rate) is assumed to decrease gradually to 5.50% for 2019 and remain level thereafter.

The Pension Plan's actual and target asset allocations were as follows:

	Actual asset allocation		Target allocation
	June 30, 2010	June 30, 2009	
Asset category:			
Equity securities	59.0%	62.0%	50.0% – 85.0%
Cash and fixed income securities	41.0	38.0	15.0% – 50.0%
Total	<u>100.0%</u>	<u>100.0%</u>	

DU invests in a diversified portfolio of equity and fixed income securities designed to maximize returns while minimizing risk associated with return volatility. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and in consultation with both DU's investment consultant and Finance Committee. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies. In addition, the target asset allocation is periodically reviewed and adjusted by the Finance Committee as appropriate. DU makes annual contributions to the plan, which are allocated to the asset categories based on the target allocations over a period of time. Accordingly, the actual asset allocation between equity and fixed income securities may vary from the target allocation.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

The fair values of DU's pension plan assets at June 30, 2010 and 2009 and by asset category are as follows:

2010				
Fair Value Measurements Using				
	Level 1	Level 2	Level 3	Total
Equities:				
Large-Cap value	\$ 5,663,407	—	—	5,663,407
Large-Cap growth	5,616,668	—	—	5,616,668
Small and Mid Cap value	3,179,340	—	—	3,179,340
Small and Mid Cap growth	3,342,134	—	—	3,342,134
International	5,282,370	—	—	5,282,370
Real estate	378,429	—	—	378,429
Fixed income	13,136,181	—		13,136,181
Commodities	1,198,932	—		1,198,932
Private equity and hedge funds	—	—	676,179	676,179
Cash	1,281,961	—	—	1,281,961
	<u>\$ 39,079,422</u>	<u>—</u>	<u>676,179</u>	<u>39,755,601</u>
2009				
Fair Value Measurements Using				
	Level 1	Level 2	Level 3	Total
Equities:				
Large-Cap value	\$ 5,132,654	—	—	5,132,654
Large-Cap growth	5,205,288	—	—	5,205,288
Small and Mid Cap value	3,040,682	—	—	3,040,682
Small and Mid Cap growth	3,025,388	—	—	3,025,388
International	4,697,068	—	—	4,697,068
Real estate	540,682	—	—	540,682
Fixed income	10,419,537	—		10,419,537
Private equity and hedge funds	—	—	868,231	868,231
Cash	126,364	—	—	126,364
	<u>\$ 32,187,663</u>	<u>—</u>	<u>868,231</u>	<u>33,055,894</u>

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

Net periodic pension and postretirement benefit cost, based on actuarial evaluations, comprised the following components for the years ended June 30:

	Pension		Postretirement medical and life	
	2010	2009	2010	2009
Service cost	\$ 2,593,709	2,576,496	75,756	482,711
Interest cost	2,673,784	2,906,095	156,104	531,648
Expected return on plan assets	(3,357,228)	(3,175,390)	—	—
Amortization of prior service cost (credit)	125,531	116,830	(1,870,724)	(785,730)
Amortization of net actuarial loss	824,655	635,148	620,204	274,106
	2,860,451	3,059,179	(1,018,660)	502,735
Plan amendments	—	—	—	(3,405,753)
	<u>\$ 2,860,451</u>	<u>3,059,179</u>	<u>(1,018,660)</u>	<u>(2,903,018)</u>

At June 30, 2010, the items not yet recognized as a component of net periodic expense, but which have been recognized in the accompanying combined financial statements as a reduction to net assets, were as follows:

	Pension	Postretirement medical and life
Prior service cost (credit)	\$ 709,617	(4,328,981)
Net actuarial loss	25,998,340	2,265,392
	<u>\$ 26,707,957</u>	<u>(2,063,589)</u>

The June 30, 2010 balance of net prior service credit and net actuarial loss expected to be amortized in fiscal 2011 is approximately \$1,745,000 and \$1,769,000, respectively.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

Estimated future benefit payments, which have been adjusted to reflect the effect of future service costs, were as follows as of June 30, 2010:

	<u>Pension</u>	<u>Postretirement medical and life</u>
Year ending June 30:		
2011	\$ 3,566,626	616,000
2012	3,678,006	635,000
2013	3,924,144	663,000
2014	3,499,810	628,000
2015	3,386,666	503,000
2016 – 2020	21,309,687	763,000

DU anticipates contributing \$6,000,000 to the Pension Plan and \$616,000 to the Postretirement Medical and Life Plans during the fiscal year ending June 30, 2011.

Other Plans

On January 1, 2000, DU offered a defined contribution retirement plan (the 401(k) Plan) that covers all employees. Employer matching contributions to the 401(k) Plan, which were temporarily suspended beginning in February 2009 through January 2010, were approximately \$516,000 and \$696,000 for the years ended June 30, 2010 and 2009, respectively.

In addition to the retirement plans discussed above, DU has entered into other nonqualified retirement agreements that provide for increased benefits for certain individuals. DU accrues the expense for these agreements over the estimated service period based on the net present value of future benefits.

The components of the pension and deferred compensation accrual balance were as follows as of June 30, 2010:

	<u>2010</u>	<u>2009</u>
Nonqualified retirement obligations	\$ 1,898,648	2,490,381
Unfunded Pension Plan liabilities	13,763,168	15,516,992
	<u>\$ 15,661,816</u>	<u>18,007,373</u>

(11) Reduction in Workforce

During the year ended June 30, 2009, DU incurred severance expense related to a reduction in workforce, which totaled approximately \$1,740,000. The severance benefits are being paid over time as continuation of salary payments. Accounts payable and accrued expenses at June 30, 2009 included accrued severance totaling approximately \$1,270,000, of which approximately \$1,165,000 was paid during the year ended June 30, 2010 and approximately \$105,000 will be paid during the year ending June 30, 2011.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

(12) Commitments and Contingencies

(a) Leases

DU leases office space under various operating leases. Rent expense for all operating leases was approximately \$737,000 and \$835,000 for the years ended June 30, 2010 and 2009, respectively.

Future minimum payments, by year and in the aggregate, under noncancelable operating leases with terms of one year or more at June 30, 2010, approximate:

Year ending June 30:		
2011	\$	590,000
2012		453,000
2013		276,000
2014		99,000
2015		8,000
Thereafter		—
	\$	<u>1,426,000</u>

The land upon which DU's headquarters building in Memphis, Tennessee is constructed is leased under a long-term agreement. Lease payments are \$1 per year and the agreement has an original maturity date of August 14, 2011. DU has the right to extend this agreement for up to three additional 10-year terms.

(b) Litigation

DU is a party to certain litigation and claims in the normal course of conducting its business, some of which involve amounts that are significant. Management believes, based in part on consultation with legal counsel, that the ultimate resolution of these matters will not have a material effect on the accompanying combined financial statements.

(13) Allocation of Joint Costs

DU conducted events that included conservation education and appeals for contributions which incurred joint costs of approximately \$15,500,000 and \$16,134,000 for the years ended June 30, 2010 and 2009, respectively, which were allocated as follows:

	<u>2010</u>	<u>2009</u>
Fund-raising	\$ 9,300,000	9,680,400
Conservation education	<u>6,200,000</u>	<u>6,453,600</u>
Total	<u>\$ 15,500,000</u>	<u>16,134,000</u>

(14) Conservation Easements

In addition to holding land for conservation purposes, DU (through its affiliate WAT) also secures conservation easements, deed restrictions, and management agreements on properties. Easement values

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

represent the difference in the appraised value of the property immediately before and after the conservation easements are imposed on the property.

Easement values have been determined by independent third-party appraisals at the time the easement is secured. As discussed in note 2, DU recognizes equal amounts of unrestricted revenues and program expense at the time the easement is secured.

Conservation easement activity during the years ended June 30, 2010 and 2009 was as follows:

	2010		2009	
	Acres	Value at date of easement	Acres	Value at date of easement
Conservation easements secured during the year ended June 30	8,017	\$ 20,998,730	52,518	\$ 65,697,887
Total conservation easements held as of June 30	339,243	545,629,555	331,226	524,630,825

(15) Restricted Nets Assets

The components of restricted net assets were as follows at June 30:

	2010		2009	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Pledges receivable, net	\$ 19,671,704	—	24,042,837	—
Net assets restricted for conservation purposes	44,688,707	—	35,758,979	—
Unappropriated net endowment earnings	674,527	—	256,877	—
Endowments	—	10,207,558	—	6,745,429
	<u>\$ 65,034,938</u>	<u>10,207,558</u>	<u>60,058,693</u>	<u>6,745,429</u>

Pledge receivables are subject to time and purpose restrictions and, upon fulfillment of restrictions, represent unrestricted net assets. Net assets restricted for conservation purposes represent funds received for specific conservation projects for which the related conservation work has not yet been performed. Endowment corpus represents contributions subject to permanent purpose restrictions, the earnings from which are primarily to be used for a variety of conservation-related purposes.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

(16) Endowment Funds

DU's endowment consists of numerous individual gifts, which are grouped into nine funds, based on the donor restriction.

Based on the interpretation of UPMIFA by the Board of Directors of DU, and absent explicit donor stipulations to the contrary, DU classifies the original value of gifts donated to the permanent endowment, as well as accumulations to the permanent endowment made at the direction of the donor, as permanently restricted net assets.

The remaining portion of donor-restricted endowment funds not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by DU's Board of Directors in a manner consistent with the standard of prudence prescribed by UPMIFA.

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's original value. Deficiencies of this nature are reported in unrestricted net assets and totaled \$342,013 and \$672,310 as of June 30, 2010 and 2009, respectively. These deficiencies resulted principally from unfavorable market fluctuations. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

DU 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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce long-term growth while assuming a moderate level of investment risk. DU expects its endowment funds to provide an average rate of return of approximately 6% annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives for endowments, DU 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). DU targets a diversified asset allocation that places emphasis on investments in equities (approximately 75% weighting) and bond strategies (approximately 25% weighting) to achieve its long-term return objectives within prudent risk constraints.

DU's policy is to appropriate for distribution each year 3% of its endowment funds fair value using the calendar year end preceding the fiscal year in which the distribution is planned. In establishing these policies, DU considered the expected return on its endowment as well as the Organization's plans to grow its endowment assets. Over time, DU expects the current spending policy to allow its endowment assets to grow at an average annual rate of approximately 3% in addition to the growth provided by new endowment gifts.

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

Endowment net assets and changes therein, as of and for the years ended June 30, 2010 and 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2008	\$ —	1,756,037	5,641,813	7,397,850
Investment return:				
Interest and dividends	2,330	4,652	—	6,982
Net depreciation	(674,640)	(1,347,087)	—	(2,021,727)
Contributions	—	—	644,315	644,315
Reclassifications	—	—	459,301	459,301
Appropriation for expenditure	—	(156,725)	—	(156,725)
Endowment net assets, June 30, 2009	(672,310)	256,877	6,745,429	6,329,996
Investment return:				
Interest and dividends	51,852	93,737	—	145,589
Net appreciation	278,445	503,366	—	781,811
Contributions	—	—	3,462,129	3,462,129
Appropriation for expenditure	—	(179,453)	—	(179,453)
Endowment net assets, June 30, 2010	\$ <u>(342,013)</u>	<u>674,527</u>	<u>10,207,558</u>	<u>10,540,072</u>

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

(17) Fair Value Measurements

The following tables set forth DU's investments by level within the fair value hierarchy, as of June 30, 2010 and 2009:

2010				
Fair Value Measurements Using				
	Level 1	Level 2	Level 3	Total
Equities:				
Large-Cap value	\$ 5,700,767	—	—	5,700,767
Large-Cap growth	5,575,343	—	—	5,575,343
Small and Mid Cap value	2,170,730	—	—	2,170,730
Small and Mid Cap growth	2,189,237	—	—	2,189,237
International	2,516,218	—	—	2,516,218
Real estate	163,943	—	—	163,943
Fixed income	5,573,308	265,541	—	5,838,849
Commodities	555,387	—	—	555,387
Private equity and hedge funds	—	—	391,447	391,447
Total investments at fair value	\$ 24,444,933	265,541	391,447	25,101,921

2009				
Fair Value Measurements Using				
	Level 1	Level 2	Level 3	Total
Equities:				
Large-Cap value	\$ 2,569,586	—	—	2,569,586
Large-Cap growth	3,238,630	—	—	3,238,630
Small and Mid Cap value	2,530,295	—	—	2,530,295
Small and Mid Cap growth	1,430,926	—	—	1,430,926
International	1,907,419	—	—	1,907,419
Real estate	201,555	—	—	201,555
Fixed income	3,890,112	263,199	—	4,153,311
Private equity and hedge funds	—	—	374,156	374,156
Total investments at fair value	\$ 15,768,523	263,199	374,156	16,405,878

DUCKS UNLIMITED, INC. AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2010 and 2009

The following table sets forth a summary of changes in the fair value of DU's Level 3 assets for the year ended June 30, 2010:

	Private equity	Hedge funds
Balance, beginning of year	\$ 132,947	241,209
Net unrealized gains (losses)	(8,890)	36,140
Net contributions (distributions)	20,460	(30,419)
Balance, end of year	\$ <u>144,517</u>	<u>246,930</u>

The classification within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. Fair value is determined as follows:

Certificates of Deposit – Valued using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

Equity Securities – Valued at the closing price reported on the active market on which the securities are traded.

Fixed Income – Values determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

Private Equity – Valued at the estimated fair value of the underlying investments using present value and other subjective valuation techniques.

Hedge Fund – Valued using the underlying investment reports based on the valuation reported by the administrators/investment advisors of the underlying investment funds.

These methods may produce a fair value calculation that may not be indicative of net realizable value reflective of future fair values. Furthermore, while DU believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.