DALLAS COUNTY COMMUNITY COLLEGE DISTRICT FOUNDATION, INC.

(A Texas Nonprofit Organization)

Financial Statements and
Independent Auditors' Report
Years Ended August 31, 2011 and 2010

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT
FOUNDATION, INC.
(A Texas Nonprofit Organization)

Years Ended August 31, 2011 and 2010

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statement of Activities –Year Ended August 31, 2011	3
Statement of Activities –Year Ended August 31, 2010	4
Statements of Cash Flows	5
Notes to Financial Statements	6

MJ
McConnell & Jones LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Dallas County Community College District Foundation, Inc.

We have audited the accompanying statements of financial position of Dallas County Community College District Foundation, Inc. (the "Foundation") as of August 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of August 31, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McConnell & Jones LLP

Houston, Texas
December 2, 2011

3040 Post Oak Blvd., Suite 1600
Houston, TX 77056
Phone: 713.968.1600
Fax: 713.968.1601

WWW.MCCONNELLJONES.COM

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT
FOUNDATION, INC.
(A Texas Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2011 AND 2010

	2011	2010
ASSETS:		
Cash and cash equivalents	$ 5,987,505	$ 7,194,417
Investments	24,582,798	19,853,108
Accrued interest and dividends receivable	52,049	56,897
Contributions receivable, net	3,020,406	3,496,168
Other assets	10,606	10,617
Total assets	$ 33,653,364	$ 30,611,207
LIABILITIES AND NET ASSETS:		
LIABILITIES:		
Due to affiliate	$ 165,277	$ 188,382
Accounts payable	19,956	22,247
Total liabilities	185,233	210,629
NET ASSETS:		
Unrestricted	2,893,448	1,357,294
Temporarily restricted	3,686,090	2,872,938
Permanently restricted	26,888,593	26,170,346
Total net assets	33,468,131	30,400,578
Total liabilities and net assets	$ 33,653,364	$ 30,611,207

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

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT
FOUNDATION INC.

STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions	$ 159,120	$ 891,913	$ 691,809	$ 1,742,842
Interest income	1,856	441,555	-	443,411
Contributed employees' salaries and benefits	566,777	-	-	566,777
Net realized and unrealized gains on investments	1,611,288	596,315	-	2,207,603
Net assets released from restrictions	1,098,457	(1,098,457)	-	-
TOTAL REVENUES	3,437,498	831,326	691,809	4,960,633
EXPENSES				
Program services:				
Scholarship awards	642,365	-	-	642,365
Grants	557,025	-	-	557,025
Total program services	1,199,390	-	-	1,199,390
Non-program services:				
Management and general	561,000	-	-	561,000
Fundraising	132,690	-	-	132,690
Total non-program services	693,690	-	-	693,690
TOTAL EXPENSES	1,893,080	-	-	1,893,080
Transfers between funds, based on donor instructions	(8,264)	(18,174)	26,438	-
CHANGE IN NET ASSETS	1,536,154	813,152	718,247	3,067,553
NET ASSETS, BEGINNING OF YEAR	1,357,294	2,872,938	26,170,346	30,400,578
NET ASSETS, END OF YEAR	$ 2,893,448	$ 3,686,090	$26,888,593	$33,468,131

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

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT
FOUNDATION, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions	$139,067	$1,148,951	$294,259	$ 1,582,277
Interest income	21,763	259,847	-	281,610
Contributed employees' salaries and benefits	300,619	-	-	300,619
Net realized and unrealized gains on investments	395,014	604,184	-	999,198
Net assets released from restrictions	1,251,846	(1,251,846)	-	-
TOTAL REVENUES	2,108,309	761,136	294,259	3,163,704
EXPENSES				
Program services:				
Scholarship awards	699,829	-	-	699,829
Grants	643,178	-	-	643,178
Total program services	1,343,007	-	-	1,343,007
Non-program services:	-	-	-	-
Management and general	342,243	-	-	342,243
Fundraising	112,972	-	-	112,972
Total non-program services	455,215	-	-	455,215
TOTAL EXPENSES	1,798,222	-	-	1,798,222
Transfers between funds	(2,900)	140,936	(138,036)	-
Change in net assets	307,187	902,072	156,223	1,365,482
NET ASSETS, BEGINNING OF YEAR	1,050,107	1,970,866	26,014,123	29,035,096
NET ASSETS, END OF YEAR	$ 1,357,294	$2,872,938	$26,170,346	$30,400,578

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

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT
FOUNDATION INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 3,067,553	$ 1,365,482
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for long-term purposes	(691,809)	(294,259)
Net realized and unrealized gains on investments	(2,207,603)	(999,198)
Changes in operating assets and liabilities:		
Accrued interest and dividends receivable	4,848	(16,527)
Contributions receivable	475,762	925,990
Other assets	(11)	-
Due to affiliate	(23,105)	(354,540)
Accounts payable	(2,291)	(78,539)
Total adjustments	(2,444,209)	(817,073)
Net cash provided by operating activities	623,344	548,409
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment sales	5,502,237	11,463,076
Purchases of investments	(8,024,302)	(11,485,808)
Net cash used in investing activities	(2,522,065)	(22,732)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for endowments	691,809	294,259
Net cash provided by financing activities	691,809	294,259
(DECREASE) /INCREASE IN CASH AND CASH EQUIVALENTS	(1,206,912)	819,936
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,194,417	6,374,481
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,987,505	$ 7,194,417

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

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Dallas County Community College District Foundation, Inc. (the "Foundation") is a nonprofit organization established in 1973. Its sole purpose is to provide benefits such as scholarships and grants to the Dallas County Community College District (the "District"), and to the students, faculty, and staff of the District's seven colleges, and R. Jan LeCroy Center for Educational Telecommunications.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC Topic 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets:

- **Unrestricted Net Assets –** These are net assets that are not subject to donor-imposed restrictions and may be used for any operating purpose of the Foundation.
- **Temporarily Restricted Net Assets –** These are net assets that are subject to donor-imposed stipulations that require the passage of time and/or the occurrence of a specific event.
- **Permanently Restricted Net Assets –** These are net assets required to be maintained in perpetuity, with only the income used for operating activities, due to donor-imposed restrictions.

In addition, the Foundation is required by FASB ASC Topic 958-205 to present a statement of cash flows.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and investments that are available for current use with maturity dates of less than three months from the date of acquisition. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. Cash equivalents included in cash and cash equivalents at August 31, 2011 and 2010, amounted to $2,797,351 and $4,915,118, respectively.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Realized and unrealized gains and losses are reported in the statements of activities.

The Foundation maintains an investment management agreement with Smith Asset Management Group, L.P.; Vanguard; Acadian Asset Management, LLC; Columbia Management; Harbor Funds; IVA Funds; Third Avenue; Perkins Investment Fund; and Barrow Henley, Mewhinney and Strauss whereby these investment managers manage the Foundation's investments in a manner consistent with the investment goals and policies established by the Foundation's Board of Directors.

Revenue Recognition

In accordance with FASB ASC Topic 958-605, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized as revenues in the period unconditional promises to give are 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 using the risk-free rate. Amortization of discounts is recorded as additional contributions in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity. Amounts deemed by management to be uncollectible are charged to expenses. Recoveries on receivables previously charged-off are credited to expenses. Management believes that all outstanding pledges are collectible and no allowance is necessary as of August 31, 2011 and 2010.

Interest income is recognized on the accrual basis. Dividends are recorded on the ex-dividend date.

Contributed Services

The salaries of certain Foundation employees have been donated by the District. The estimated fair value of these contributed services is $566,777 and $300,619 for 2011 and 2010, respectively, and has been included in contributed employees' salaries and benefits in the revenues section, and management and general expenses in the accompanying statements of activities.

The District also provides office space and equipment at no cost to the Foundation. Because the Foundation does not have a clearly measurable basis to estimate the value of these contributed facilities and equipment, no amounts have been reflected in the financial statements.

Federal Income Taxes

The Foundation is exempt from federal income tax under Section 501(a) of the Internal Revenue Code (the Code) of 1986, as amended, as an organization described in Section 501(c)(3) of the Code. However, income generated from activities unrelated to the Foundation's exempt purpose is subject to tax under Section 511 of the Code. The Foundation did not conduct any unrelated business activities in the current fiscal year. Therefore, the Foundation has made no provision for federal income taxes in the accompanying financial statements. Accordingly, contributions to the Foundation are tax deductible within the limitations prescribed by the Code. The Foundation has also been classified as a publicly-supported organization which is not a private foundation under Section 509(a) of the Code.

The Foundation applies the provisions of FASB ASC 740, *Income Taxes*, (formerly FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes* – an Interpretation of FASB Statement No. 109), which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

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 certain estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates included in the financial statements are present values of contributions receivable expected to be received beyond one year.

New Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends ASC 820 to improve and expand fair value disclosures. Newly required disclosures are as follows: 1) information about transfers in and out of Levels 1 and 2, including reasons for such transfers; 2) details of activities in Level 3 assets including information about purchases, sales, issuances, and settlements; and, 3) fair value measurements for each class of assets and liabilities. ASU 2010-06 also clarifies existing disclosures on inputs and valuation techniques, where a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures became effective in fiscal year 2011, except for disclosures about purchases, sales, issuances, and settlements, which are effective for fiscal years beginning after December 15, 2010. Management has determined that the new clarifications and disclosures did not significantly affect the Foundation's financial statements.

In February 2010, FASB issued ASU 2010-09 - Subsequent Events (Topic 855), *Amendments to Certain Recognition and Disclosure Requirements*, which established principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable GAAP. The Foundation has made the required disclosures in Note K.

In May 2011, the FASB issued ASU 2011-04 – Fair Value Measurements (Topic 820), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs*, which changes the wording used to describe many of the requirements in US GAAP for measuring fair value and for disclosing information about the application of existing fair value measurements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments will be effective for the Foundation's 2012 annual financial statements. Management does not anticipate that these new requirements will significantly affect the Foundation's financial statements.

Reclassification

Certain 2010 amounts have been reclassified to conform with the 2011 financial statement presentation.

NOTE B - INVESTMENTS

Investments are composed of the following as of August 31:

	2011		2010	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Corporate bonds	$ 3,731,926	$ 5,271,424	$ 3,933,593	$ 5,305,589
Corporate stocks	3,926,449	4,398,802	2,741,592	2,754,470
Mutual funds	14,098,117	14,912,572	11,954,576	11,793,049
	$ 21,756,492	$ 24,582,798	$ 18,629,761	$ 19,853,108

Investment securities are exposed to various risks, such as interest rate, custodial and market credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities will occur in the near term, and that such changes could significantly affect the amounts reported in the financial statements.

For the years ended August 31, 2011 and 2010, the components of investment earnings are:

	2011	2010
Investment income	$ 443,411	$ 281,610
Net gain on investments carried at fair value	2,207,603	999,198
Total investment return	$ 2,651,014	$ 1,280,808

NOTE C - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following unconditional promises to give:

	August 31,	
	2011	2010
Contributions receivable	$ 3,175,000	$ 3,751,000
Less unamortized discount ranging from 0.68% to 3.84% at August 31, 2011 and 1.04% to 4.82% at August 31, 2010	(154,594)	(254,832)
	$ 3,020,406	$ 3,496,168

The maturity of contributions receivable as of August 31, 2011 is as follows:

Less than one year	$ 1,000,000
One to five years	2,175,000
	$ 3,175,000

NOTE D - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	August 31,	
	2011	2010
Student scholarship for tuition and books	$ 1,715,489	$ 1,112,480
Professional development, student related activities, and program support	1,970,601	1,760,458
	$ 3,686,090	$ 2,872,938

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT
FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2011 AND 2010

NOTE E - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are maintained for the benefit of the following:

	August 31,	
	2011	**2010**
Student scholarship for tuition and books	$ 25,977,433	$ 25,481,469
Professional development, student related activities, and program support	911,160	688,877
	$ 26,888,593	$ 26,170,346

The Foundation's permanently restricted net assets are restricted to investments in perpetuity, although the income from these permanently restricted assets is available for scholarships and grants.

NOTE F - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions consisting of temporarily restricted funds were due mainly to satisfaction of purpose restrictions, and amounted to $1,098,457 and $1,251,846 for the years ended August 31, 2011 and 2010, respectively.

NOTE G – CONCENTRATION OF CREDIT RISK

The Foundation maintains deposits at federally insured banks. During the current year, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Program) was passed to amend the Federal Deposit Insurance (FDI) Act to provide full deposit insurance coverage for noninterest-bearing transaction accounts and Interest on Lawyer Trust Accounts (IOLTAs) beginning December 31, 2010, for a two-year period. The local bank with which the Organization maintains its bank accounts was a participant in such Program and hence, all deposits at the bank were fully insured. Prior to the commencement of the Program, the Foundation maintained deposits in financial institutions which at times exceeded amounts covered by insurance provided by the FDIC. The Foundation did not experience any losses in such accounts. The Foundation's deposit accounts exceeded federally insured limits by approximately $0 and $1,814,000 as of August 31, 2011 and 2010, respectively.

NOTE H - TRANSACTIONS WITH RELATED PARTIES

The Foundation's payments to the District for scholarships and grants amounted to $783,678 and $898,523 for 2011 and 2010, respectively. At August 31, 2011 and 2010, the Foundation owed the District $165,277 and $188,382, respectively, for scholarships and grants.

Also, as described in the Contributed Services paragraph of Note A, the District paid the salaries and benefits of certain Foundation's employees and the estimated fair value of these contributed services is $566,777 and $300,619 for 2011 and 2010, respectively. Further, the District also provided office space and equipment at no cost to the Foundation. Because the Foundation does not have a clearly measurable basis to estimate the value of these contributed facilities and equipment, no amounts have been reflected in the Foundation's financial statements.

NOTE I - FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, *Fair Value Measurements*, provides a revised definition of fair value and establishes a framework for measuring fair value. The Statement also establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources (observable inputs) and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs).

The fair value hierarchy in FASB ASC Topic 820 prioritizes fair value measurements into three levels based on the nature of the inputs. The three levels of the fair value hierarchy under FASB ASC Topic 820 are as follows:

<u>Level 1</u>
Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

<u>Level 2</u>
Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

<u>Level 3</u>
Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Following is a summary of the Foundation's investments by level, within the fair value hierarchy, as of August 31, 2011 and 2010:

	Assets at Fair Value as of August 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed income securities	$ 5,271,424	$ -	$ -	$ 5,271,424
Equity investments	4,398,802	-	-	4,398,802
Mutual funds	14,912,572	-	-	14,912,572
	$ 24,582,798	$ -	$ -	$ 24,582,798

	Assets at Fair Value as of August 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed income securities	$ 5,305,589	$ -	$ -	$ 5,305,589
Equity investments	2,754,470	-	-	2,754,470
Mutual funds	11,793,049	-	-	11,793,049
	$ 19,853,108	$ -	$ -	$ 19,853,108

NOTE J - ENDOWMENTS

The Foundation's endowment consists of approximately 140 individual funds established for a variety of purposes. These individual funds consist of both donor-restricted endowment funds and funds designated by the Board to function as endowments.

On September 1, 2007, the State of Texas adopted the Uniform Prudent Management of Investment Funds Act ("UPMIFA"). UPMIFA provides standards and guidelines for the management, investment, and expenditure of charitable funds and for endowment spending by institutions organized and operated exclusively for a charitable purpose. The purposes of UPMIFA are to modernize rules, to articulate prudence standards, and to provide guidance and authority for the management and investment of charitable funds and for endowment spending. The new act provides greater direction with respect to making prudent determinations and requires charities to focus on donor intent and the purpose of endowment funds when managing institutional funds.

In August 2008, the FASB issued Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds,* which was later codified as FASB ASC 958-205 and is effective for fiscal years ending after December 15, 2008. FASB ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of UPMIFA; and improves disclosures about an organization's endowment funds (both donor restricted funds and funds functioning as an endowment), regardless of whether it is subject to UPMIFA. In addition, FASB ASC 958-205 addresses how UPMIFA's elimination of the historic dollar value threshold — the amount below which a not-for-profit could not spend under regulations prior to the adoption of UPMIFA — affects net asset classification. The FASB ASC 958-205 requires an organization to classify a portion of a donor-restricted endowment fund (other than a term endowment) as permanently restricted net assets. That portion is equal to the amount of the fund that: (1) must be retained permanently, in accordance with explicit donor stipulations, or (2) that, in the absence of such stipulations, the not-for-profit's governing board determines must be retained permanently under the relevant law.

As permitted by accounting standards generally accepted in the United States of America, income earned on endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions as well as based on management prudent determinations.

Interpretation of Relevant Law

The staff of the Foundation has interpreted the UPMIFA 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. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the 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.

Endowment Net Asset Composition by Type of Fund as of August 31, 2011:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 26,888,593	$ 26,888,593
Board restricted endowment funds	6,882	-	6,882
Total	$ 6,882	$ 26,888,593	$ 26,895,475
Changes in Endowment Net Assets for the year ended August 31, 2011:			
Endowment net assets, beginning of year	$ 6,519	$ 26,170,346	$ 26,176,865
Contributions	-	691,809	691,809
Investment income			
Dividends and interest	154	-	154
Net realized and unrealized gains on investments	209	-	209
Transfer between funds, based on donor instructions	-	26,438	26,438
Endowment net assets, end of year	$ 6,882	$ 26,888,593	$ 26,895,475

Endowment Net Asset Composition by Type of Fund as of August 31, 2010:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 26,170,346	$ 26,170,346
Board restricted endowment funds	6,519	-	6,519
Total	$ 6,519	$ 26,170,346	$ 26,176,865
Changes in Endowment Net Assets for the year ended August 31, 2010:			
Endowment net assets, beginning of year	$ 6,216	$ 26,014,123	$ 26,020,339
Contributions	-	294,259	294,259
Investment income			
Dividends and interest	89	-	89
Net realized and unrealized gains on investments	214	-	214
Transfer between funds	-	(138,036)	(138,036)
Endowment net assets, end of year	$ 6,519	$ 26,170,346	$ 26,176,865

Return Objectives and Risk Parameters

The Foundation board has adopted investment and spending policies for endowment assets that attempt to preserve the real (inflation-adjusted) purchasing power of the trust assets, to provide an adequate level of income to meet the original intent of the Foundation's benefactors and to maximize the total rate of return earned by the trust without assuming an unreasonable degree of risk. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board, the investment objective for the fixed income is to outperform (net of fees) the Barclays Intermediate Government/Credit Index. The investment objective for the equity fund is to outperform (net of fees) the Russell 1000 and/or the S&P 500 Stock Index.

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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation will make earnings available each year for use by endowment supported funds. The available funds will be up to 5% of the three year average of the aggregate investment portfolio market value at December 31st of the year preceding the disbursement of the funds. The spending limit will not exceed 5% of the December 31st market value.

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. This is consistent with the Foundation's objectives to preserve the real (inflation-adjusted) purchasing power of the trust assets, to provide an adequate level of income to meet the original intent of the Foundation's benefactors and to maximize the total rate of return earned by the trust without assuming an unreasonable degree of risk.

NOTE K - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 2, 2011; the date financial statements were available to be issued. No changes are necessary to be made to the financial statements as a result of this evaluation.