

**ALABAMA LAW FOUNDATION, INC.**

**MARCH 31, 2011**

**FINANCIAL STATEMENTS**

ALABAMA LAW FOUNDATION, INC.  
MONTGOMERY, ALABAMA

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MONTGOMERY, ALABAMA

Dothan

Prattville

Wetumpka

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Alabama Law Foundation, Inc.  
Montgomery, Alabama

We have audited the accompanying statement of financial position of Alabama Law Foundation, Inc. (the Foundation) as of March 31, 2011, and the related statements of activities and changes in net assets and cash flows for the year 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 audit. The prior year's summarized comparative information has been derived from the Foundation's 2010 financial statements and, in our report dated June 14, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Alabama Law Foundation, Inc. as of March 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Jackson Thornton & Co. PC*

Montgomery, Alabama  
May 27, 2011

ALABAMA LAW FOUNDATION, INC.  
MONTGOMERY, ALABAMA

STATEMENTS OF FINANCIAL POSITION  
AT MARCH 31, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 703,150	\$ 594,745
Certificates of deposit	516,000	1,078,000
Investments	3,117,604	2,687,306
IOLTA revenue receivable	64,267	75,931
Contributions receivable	222,677	190,274
Other receivables	31,042	40,337
Property and equipment, net	<u>24,906</u>	<u>15,085</u>
 Total assets	 <u>\$ 4,679,646</u>	 <u>\$ 4,681,678</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable and accrued expenses	\$ 53,827	\$ 36,760
Grants payable	<u>478,542</u>	<u>574,626</u>
Total liabilities	<u>532,369</u>	<u>611,386</u>

NET ASSETS:

Unrestricted	2,208,474	2,474,312
Temporarily restricted	989,005	734,877
Permanently restricted	<u>949,798</u>	<u>861,103</u>
Total net assets	<u>4,147,277</u>	<u>4,070,292</u>
 Total liabilities and net assets	 <u>\$ 4,679,646</u>	 <u>\$ 4,681,678</u>

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

ALABAMA LAW FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED MARCH 31, 2011  
(WITH COMPARATIVE TOTALS FOR 2010)

	2011			2010	
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
REVENUES AND OTHER SUPPORT:					
IOLTA revenue (net of bank charges)	\$ 584,491			\$ 584,491	\$ 790,374
Contributions	74,965	\$ 436,836	\$ 88,695	600,496	346,991
Investment income	254,794	88,686		343,480	686,176
Other revenue	18,217	51		18,268	18,687
Net assets released from restrictions:					
Satisfaction of program restrictions	271,445	(271,445)			
Total revenues	1,203,912	254,128	88,695	1,546,735	1,842,228
EXPENSES:					
Program services:					
Grants program	829,672			829,672	959,735
Scholarship program	76,570			76,570	88,114
Access to Justice program	243,411			243,411	179,143
Supporting services:					
Fund-raising	128,785			128,785	105,902
General and administrative	191,312			191,312	182,339
Total expenses	1,469,750			1,469,750	1,515,233
CHANGES IN NET ASSETS	(265,838)	254,128	88,695	76,985	326,995
NET ASSETS AT BEGINNING OF YEAR	2,474,312	734,877	861,103	4,070,292	3,743,297
NET ASSETS AT END OF YEAR	\$ 2,208,474	\$ 989,005	\$ 949,798	\$ 4,147,277	\$ 4,070,292

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

ALABAMA LAW FOUNDATION, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010  
Increase (Decrease) in Cash and Cash Equivalents

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Change in net assets	\$ 76,985	\$ 326,995
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,598	7,685
Noncash contributions		(3,893)
Unrealized gain on investments	(291,661)	(609,427)
Gain on sale of investments		(3,939)
Contributions restricted for permanent investment	(88,695)	(65,842)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
IOLTA revenue receivable	11,664	46,276
Contributions receivable	(32,403)	45,136
Other receivables	9,295	(8,463)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	17,067	1,412
Grants payable	(96,084)	99,432
Net cash used for operating activities	<u>(383,234)</u>	<u>(164,628)</u>
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
Purchases of equipment	(20,419)	(8,376)
Proceeds from sale and maturity of investments		13,985
Net redemptions of certificates of deposit	562,000	174,000
Purchases of investments	<u>(138,637)</u>	<u>(114,344)</u>
Net cash from investing activities	<u>402,944</u>	<u>65,265</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for permanent investment	<u>88,695</u>	<u>65,842</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	108,405	(33,521)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>594,745</u>	<u>628,266</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 703,150</u>	<u>\$ 594,745</u>

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

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of activities - Alabama Law Foundation, Inc. (the Foundation) was formed to promote law-related public service projects and to provide for the delivery of legal services to the poor. The Foundation receives revenue primarily from interest on Lawyer Trust Accounts (IOLTA) made available by participating attorneys through financial institution remittances of interest earned on the participants' client escrow accounts.

The Foundation also receives contributions to be used to provide scholarships to Alabama residents who are pursuing a legal education in accredited law schools. Contributions to the Foundation's Kids' Chance program provide scholarships to the children of individuals who have been killed or permanently disabled as a result of a workers' compensation injury or occupational disease.

In addition, the Foundation assists in coordinating statewide pro bono legal services through a contract with the Supreme Court of Alabama.

Basis of accounting - The financial statements of Alabama Law Foundation, Inc. have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of presentation - The Foundation's net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Summarized financial information for the year ended March 31, 2010 - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended March 31, 2010, from which the summarized information was derived. Certain amounts have been reclassified in order to conform with the current year presentation.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents - For cash flow statement purposes, the Foundation considers all short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturities that they present insignificant risk of changes in value because of changes in interest rates, to be cash equivalents. Cash accounts held as a portion of the Foundation's investment portfolio are classified as investments and are not considered to be cash equivalents for the purpose of the statement of cash flows.

Investments - Investments are carried at fair value. The net realized and unrealized gains and losses on investments are reflected as investment income on the statement of activities.

Property and equipment - Property and equipment additions are capitalized and carried at cost less accumulated depreciation. Depreciation of furniture and equipment has been calculated using an accelerated method. Leasehold improvements and website development costs are depreciated using a straight-line method. The estimated useful lives used to compute depreciation are as follows:

Furniture and equipment	3 - 7 years
Leasehold improvements	20 years
Website development	3 years



ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

A summary of property and equipment is presented below:

	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 64,439	\$ 56,110
Leasehold improvements	10,000	10,000
Website development	<u>13,763</u>	<u>13,763</u>
	88,202	79,873
Less: Accumulated depreciation	<u>63,296</u>	<u>64,788</u>
Totals	<u>\$ 24,906</u>	<u>\$ 15,085</u>

Leases that transfer substantially all of the risks and benefits of ownership are capital leases. Other leases are operating leases. Assets acquired under capital leases are included in property and equipment, and the amortization of the capital lease assets is included in depreciation expense.

IOLTA revenue - IOLTA revenue is recorded on the accrual basis as an increase in unrestricted net assets in the period that the interest is earned on the IOLTA accounts.

Contributions - In general, contributions, which include unconditional promises to give, are recognized as revenues in the period received. Contributions with donor-imposed restrictions are reported as restricted support and added to temporarily or permanently restricted net assets, as appropriate. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift.

Unconditional promises to give are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Unconditional promises that are expected to be collected in more than one year are reported at fair value initially. Unconditional promises to give are measured using present value techniques and historical discount rates in periods subsequent to their receipt. Conditional promises to give are recognized when the condition on which they depend are substantially met.

Grants - Grants to other organizations are recorded as an expense when the Foundation's Board of Trustees approves the grant.

Subsequent events - The Foundation has evaluated events through May 27, 2011, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of March 31, 2011, have been incorporated into these financial statements.

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011

NOTE 2 - CASH:

The Foundation maintains cash accounts primarily in bank deposit accounts, which at times may exceed federally insured limits. As of March 31, 2011 none exceeded the federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 3 - INCOME TAXES:

Alabama Law Foundation, Inc. is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Alabama Law Foundation, Inc. is not a private foundation. Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the Foundation is no longer subject to tax examinations by tax authorities for years prior to 2007.

NOTE 4 - INVESTMENTS:

Investments are reported at fair value and are composed of the following:

	COST	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)
March 31, 2011:			
Money funds	\$ 226,829	\$ 226,829	\$ 226,829
Marketable securities - mutual funds	2,571,997	2,890,775	2,890,775
Totals	<u>\$ 2,798,826</u>	<u>\$ 3,117,604</u>	<u>\$ 3,117,604</u>
March 31, 2010:			
Money funds	\$ 73,031	\$ 73,031	\$ 73,031
Marketable securities - mutual funds	2,587,157	2,614,275	2,614,275
Totals	<u>\$ 2,660,188</u>	<u>\$ 2,687,306</u>	<u>\$ 2,687,306</u>

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

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011

The Foundation follows the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification. Fair value is defined 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 and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification as assumptions market participants would use in pricing an asset or liability.

NOTE 5 - INVESTMENT INCOME:

Investment income for the year ended March 31 is composed of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 51,819	\$ 72,810
Realized gain on marketable securities		3,939
Net unrealized gain on marketable securities	<u>291,661</u>	<u>609,427</u>
Total investment income	<u>\$ 343,480</u>	<u>\$ 686,176</u>

NOTE 6 - RELATED PARTY TRANSACTIONS:

The members of the Board of Trustees of the Alabama Law Foundation, Inc. are appointed by the Alabama State Bar. The Foundation and the State Bar have an agreement which provides for employees of the State Bar to administer the Foundation's programs. The management fee for 2011 and 2010 was \$124,304 and \$141,694, respectively. The Foundation also recognized \$130,400 in 2011 and \$128,000 in 2010 of contribution revenue from the Alabama State Bar for pro hac vice receipts which are to be used to support the Access to Justice program. Other receivables at March 31, 2011 and 2010 include \$29,200 and \$28,400, respectively, due from the Alabama State Bar for this program. The Foundation also leases office space from the State Bar as described in Note 7.

NOTE 7 - LEASE AGREEMENT:

The Foundation has entered into an operating lease agreement with the Alabama State Bar for office space. The lease terms provide for a monthly rent of \$1,500 through September 2011. Either party may terminate the lease with a 60 day notice. Rent expense recognized for the year ended March 31, 2011 and 2010 was \$18,000. At March 31, 2011, future minimum rental payments under the lease agreement total \$9,000.

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011

NOTE 8 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable represent unconditional promises to give at March 31 is as follows:

	<u>2011</u>	<u>2010</u>
Receivables in less than one year	\$ 102,633	\$ 103,851
Receivables in one to five years	111,534	77,800
Receivables in more than five years	<u>17,200</u>	<u>15,400</u>
Total unconditional promises to give	231,367	197,051
Less: Discounts to net present value	<u>8,690</u>	<u>6,777</u>
Net unconditional promises to give	<u>\$ 222,677</u>	<u>\$ 190,274</u>

The Foundation has no allowance for uncollectible promises to give because all are considered collectible.

NOTE 9 - RESTRICTIONS ON NET ASSETS:

Temporarily restricted net assets at March 31 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
IOLTA grants		\$ 21,785
Provide scholarship assistance for law school students	\$ 253,096	253,523
Coordinate statewide pro bono legal services	708,929	435,277
Provide for leadership development for future leaders of the Alabama State Bar through the Bill Scruggs Fund	<u>26,980</u>	<u>24,292</u>
Total temporarily restricted net assets	<u>\$ 989,005</u>	<u>\$ 734,877</u>

Permanently restricted net assets at March 31 consisted of the following items:

	<u>2011</u>	<u>2010</u>
Atticus Finch Society endowment	\$ 924,798	\$ 836,103
Endowment for scholarships	<u>25,000</u>	<u>25,000</u>
Total permanently restricted net assets	<u>\$ 949,798</u>	<u>\$ 861,103</u>

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011

NOTE 10 - FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 11 - ENDOWMENT:

The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Foundation has interpreted the State of Alabama's Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those assets amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Foundation considers the following factors 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.

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011

NOTE 11 - ENDOWMENT: (continued)

The composition of endowment net asset by type of fund at March 31, 2011 is as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted endowment funds		\$ 111,091	\$ 822,010	\$ 933,101
Board designated endowment funds	\$ 2,015,732	195,000		2,210,732
Totals	<u>\$ 2,015,732</u>	<u>\$ 306,091</u>	<u>\$ 822,010</u>	<u>\$ 3,143,833</u>

The composition of endowment net asset by type of fund at March 31, 2010 is as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted endowment funds		\$ 23,968	\$ 759,543	\$ 783,511
Board designated endowment funds	\$ 1,735,977	195,000		1,930,977
Totals	<u>\$ 1,735,977</u>	<u>\$ 218,968</u>	<u>\$ 759,543</u>	<u>\$ 2,714,488</u>

Changes in endowment net assets for the year ended March 31, 2011 is as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, at March 31, 2010	\$ 1,735,977	\$ 218,968	\$ 759,543	\$ 2,714,488
Investment return:				
Interest and dividends	22,505	8,181		30,686
Unrealized gains	211,468	80,192		291,660
Total investment return	<u>233,973</u>	<u>88,373</u>		<u>322,346</u>
Contributions			62,467	62,467
Appropriation of endowment assets for expenditure		(1,250)		(1,250)
Other changes:				
Transfers to increase board-designated endowment funds	<u>45,782</u>			<u>45,782</u>
Endowment net assets, at March 31, 2011	<u>\$ 2,015,732</u>	<u>\$ 306,091</u>	<u>\$ 822,010</u>	<u>\$ 3,143,833</u>

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011

NOTE 11 - ENDOWMENT: (continued)

Changes in endowment net assets for the year ended March 31, 2010 is as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, at March 31, 2009	\$ 1,105,987	\$ 196,683	\$ 693,701	\$1,996,371
Investment return:				
Interest, dividends, and realized gains	31,154	9,538		40,692
Unrealized gains	596,679	12,747		609,426
Total investment return	627,833	22,285		650,118
Contributions			65,842	65,842
Other changes:				
Transfers to increase board-designated endowment funds	2,157			2,157
Endowment net assets, at March 31, 2010	\$ 1,735,977	\$ 218,968	\$ 759,543	\$2,714,488

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies at March 31, 2011.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a rate of return that is at least 5% greater than the rate of inflation as measured by the Consumer Price Index (CPI). The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

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 with prudent risk constraints.

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2011

NOTE 11 - ENDOWMENT: (continued)

The Foundation has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value as it existed at the end of the preceding 20 calendar quarters. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Foundation made no appropriations from the endowment funds during the year.