

ALABAMA LAW FOUNDATION, INC.

MARCH 31, 2012

FINANCIAL STATEMENTS

ALABAMA LAW FOUNDATION, INC.
MONTGOMERY, ALABAMA

INDEX

	<u>PAGE</u>
Independent auditors' report	1
Statements of financial position	2
Statement of activities and changes in net assets	3
Statements of cash flows	4
Notes to financial statements	5 - 13



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, 2012, 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 2011 financial statements and, in our report dated May 27, 2011, 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, 2012, 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
June 29, 2012

ALABAMA LAW FOUNDATION, INC.
MONTGOMERY, ALABAMA

STATEMENTS OF FINANCIAL POSITION
AT MARCH 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 838,553	\$ 703,150
Certificates of deposit	302,241	516,000
Investments	3,145,372	3,117,604
IOLTA revenue receivable	54,930	64,267
Contributions receivable	193,341	222,677
Other receivables	41,451	31,042
Property and equipment, net	<u>15,956</u>	<u>24,906</u>
Total assets	<u>\$ 4,591,844</u>	<u>\$ 4,679,646</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable and accrued expenses	\$ 103,077	\$ 53,827
Grants payable	<u>519,127</u>	<u>478,542</u>
Total liabilities	<u>622,204</u>	<u>532,369</u>

NET ASSETS:

Unrestricted	2,003,819	2,208,474
Temporarily restricted	1,012,752	989,005
Permanently restricted	<u>953,069</u>	<u>949,798</u>
Total net assets	<u>3,969,640</u>	<u>4,147,277</u>

Total liabilities and net assets	<u>\$ 4,591,844</u>	<u>\$ 4,679,646</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, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012				2011
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
REVENUES, GAINS, LOSSES AND RECLASSIFICATIONS:					
IOLTA revenue (net of bank charges)	\$ 590,217			\$ 590,217	\$ 584,491
Contributions	39,029	\$ 371,946	\$ 21,938	432,913	600,496
Investment income	43,220	7,945		51,165	343,480
Other revenue	23,750			23,750	18,268
Bad debt loss			(18,667)	(18,667)	
Net assets released from restrictions:					
Satisfaction of program restrictions	356,144	(356,144)			
Total revenues, gains, losses, and reclassifications	1,052,360	23,747	3,271	1,079,378	1,546,735
EXPENSES:					
Program services:					
Grants program	548,753			548,753	829,672
Scholarship program	104,942			104,942	76,570
Access to Justice program	298,386			298,386	243,411
Supporting services:					
Fund-raising	109,810			109,810	128,785
General and administrative	195,124			195,124	191,312
Total expenses	1,257,015			1,257,015	1,469,750
CHANGES IN NET ASSETS	(204,655)	23,747	3,271	(177,637)	76,985
NET ASSETS AT BEGINNING OF YEAR	2,208,474	989,005	949,798	4,147,277	4,070,292
NET ASSETS AT END OF YEAR	\$ 2,003,819	\$ 1,012,752	\$ 953,069	\$ 3,969,640	\$ 4,147,277

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, 2012 AND 2011
Increase (Decrease) in Cash and Cash Equivalents

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Change in net assets	\$ (177,637)	\$ 76,985
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,950	10,598
Noncash contributions	(2,187)	
Unrealized (gain) loss on investments	15,551	(291,661)
Gain on sale of investments	(466)	
Bad debt loss	18,667	
Contributions restricted for permanent investment	(21,938)	(88,695)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
IOLTA revenue receivable	9,337	11,664
Contributions receivable	10,669	(32,403)
Other receivables	(10,409)	9,295
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	49,250	17,067
Grants payable	40,585	(96,084)
Net cash used for operating activities	<u>(59,628)</u>	<u>(383,234)</u>
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
Purchases of equipment		(20,419)
Proceeds from sale and maturity of investments	10,448	
Net redemptions of certificates of deposit	213,759	562,000
Purchases of investments	<u>(51,114)</u>	<u>(138,637)</u>
Net cash from investing activities	<u>173,093</u>	<u>402,944</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for permanent investment	<u>21,938</u>	<u>88,695</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	135,403	108,405
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>703,150</u>	<u>594,745</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 838,553</u></u>	<u><u>\$ 703,150</u></u>

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

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012

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, 2012

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

Summarized financial information for the year ended March 31, 2011 - 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, 2011, from which the summarized information was derived.

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.

Fair value measurements - 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.

Property and equipment - Property and equipment additions with a cost of \$1,000 or greater and a useful life exceeding one year 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 amortized 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, 2012

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

A summary of property and equipment is presented below:

	<u>2012</u>	<u>2011</u>
Furniture and equipment	\$ 62,380	\$ 64,439
Leasehold improvements	10,000	10,000
Website development	<u>13,763</u>	<u>13,763</u>
	86,143	88,202
Less: Accumulated depreciation	<u>70,187</u>	<u>63,296</u>
Totals	<u>\$ 15,956</u>	<u>\$ 24,906</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 grants.

Subsequent events - The Foundation has evaluated events through June 29, 2012, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of March 31, 2012, have been incorporated into these financial statements.

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012

NOTE 2 - CASH:

The Foundation maintains cash accounts primarily in bank deposit accounts, which at times may exceed federally insured limits. Non-interest bearing bank accounts are fully insured by the Federal Deposit Insurance Corporation (FDIC) through December 31, 2012. The Foundation maintains cash equivalents that are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000. At March 31, 2012, the Foundation had approximately \$217,000 of uninsured cash equivalents. The Foundation has not experienced any losses in such accounts.

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 2009.

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, 2012:			
Money funds	\$ 58,513	\$ 58,513	\$ 58,513
Fixed income mutual funds	1,100,118	1,125,409	1,125,409
Equity mutual funds	1,683,513	1,961,450	1,961,450
Totals	<u>\$ 2,842,144</u>	<u>\$ 3,145,372</u>	<u>\$ 3,145,372</u>
March 31, 2011:			
Money funds	\$ 226,829	\$ 226,829	\$ 226,829
Fixed income mutual funds	934,910	916,843	916,843
Equity mutual funds	1,637,087	1,973,932	1,973,932
Totals	<u>\$ 2,798,826</u>	<u>\$ 3,117,604</u>	<u>\$ 3,117,604</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, 2012

NOTE 5 - INVESTMENT INCOME:

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

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 66,250	\$ 51,819
Realized gain on marketable securities	466	
Net unrealized gain (loss) on marketable securities	<u>(15,551)</u>	<u>291,661</u>
Total investment income	<u>\$ 51,165</u>	<u>\$ 343,480</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 2012 and 2011 was \$123,740 and \$124,304, respectively. The Foundation also recognized \$100,800 in 2012 and \$130,400 in 2011 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, 2012 and 2011 include \$35,400 and \$29,200, 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 2012. Either party may terminate the lease with a 60 day notice. Rent expense recognized for the year ended March 31, 2012 and 2011 was \$18,000. At March 31, 2012, future minimum rental payments under the lease agreement total \$9,000.

NOTE 8 - CONTRIBUTIONS RECEIVABLE:

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

	<u>2012</u>	<u>2011</u>
Receivables in less than one year	\$ 84,066	\$ 102,633
Receivables in one to five years	101,337	111,534
Receivables in more than five years	<u>14,400</u>	<u>17,200</u>
Total unconditional promises to give	199,803	231,367
Less: Discounts to net present value	<u>6,462</u>	<u>8,690</u>
Net unconditional promises to give	<u>\$ 193,341</u>	<u>\$ 222,677</u>

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012

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>2012</u>	<u>2011</u>
Provide scholarship assistance for law school students	\$ 253,272	\$ 253,096
Coordinate statewide pro bono legal services	747,405	708,929
Provide for leadership development for future leaders of the Alabama State Bar through the Bill Scruggs Fund	<u>12,075</u>	<u>26,980</u>
Total temporarily restricted net assets	<u>\$ 1,012,752</u>	<u>\$ 989,005</u>

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

	<u>2012</u>	<u>2011</u>
Atticus Finch Society endowment	\$ 928,069	\$ 924,798
Endowment for scholarships	<u>25,000</u>	<u>25,000</u>
Total permanently restricted net assets	<u>\$ 953,069</u>	<u>\$ 949,798</u>

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.

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012

NOTE 11 - ENDOWMENT: (continued)

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.

The composition of endowment net asset by type of fund at March 31, 2012 is as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted endowment funds		\$ 117,572	\$ 849,715	\$ 967,287
Board designated endowment funds	\$ 2,033,788	195,000		2,228,788
Totals	<u>\$ 2,033,788</u>	<u>\$ 312,572</u>	<u>\$ 849,715</u>	<u>\$ 3,196,075</u>

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>

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012

NOTE 11 - ENDOWMENT: (continued)

Changes in endowment net assets for the year ended March 31, 2012 is as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, at March 31, 2011	\$ 2,015,732	\$ 306,091	\$ 822,010	\$3,143,833
Investment return:				
Interest and dividends	29,521	11,817		41,338
Unrealized losses	(11,465)	(4,086)		(15,551)
Total investment return	18,056	7,731		25,787
Contributions			27,705	27,705
Appropriation of endowment assets for expenditure		(1,250)		(1,250)
Endowment net assets, at March 31, 2012	\$ 2,033,788	\$ 312,572	\$ 849,715	\$3,196,075

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, dividends, and realized gains	22,505	8,181		30,686
Unrealized gains	211,468	80,192		291,660
Total investment return	233,973	88,373		322,346
Contributions			62,467	62,467
Appropriation of endowment assets for expenditure		(1,250)		(1,250)
Other changes:				
Transfers to increase board-designated endowment funds	45,782			45,782
Endowment net assets, at March 31, 2011	\$ 2,015,732	\$ 306,091	\$ 822,010	\$3,143,833

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, 2012.

ALABAMA LAW FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012

NOTE 11 - ENDOWMENT: (continued)

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.

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.