

**TREE RESEARCH AND EDUCATION  
ENDOWMENT FUND**

**FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2010 AND 2009**

**TOGETHER WITH AUDITOR'S REPORT**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Tree Research and Education  
Endowment Fund:

We have audited the accompanying statement of financial position of Tree Research and Education Endowment Fund (the Fund) as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 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 Tree Research and Education Endowment Fund as of December 31, 2010 and 2009 and its changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Dugan & Lopatka*

DUGAN & LOPATKA

Wheaton, Illinois  
May 20, 2011

TREE RESEARCH AND EDUCATION ENDOWMENT FUND  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2010 AND 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 131,491	\$ 183,329
Pledges receivable	50,000	70,000
Other contributions and grants receivable	6,000	2,500
Investments held by Chicago Community Trust	1,551,616	1,301,470
Prepaid expenses	5,799	4,726
	<u>1,744,906</u>	<u>1,562,025</u>
<b>PROPERTY AND EQUIPMENT, at cost:</b>		
Furniture and equipment	30,120	30,120
Less - Accumulated depreciation	<u>(23,041)</u>	<u>(17,862)</u>
Net property and equipment	<u>7,079</u>	<u>12,258</u>
<b>OTHER ASSETS:</b>		
Pledges receivable, net of current maturities	<u>48,426</u>	<u>38,284</u>
	<u>\$ 1,800,411</u>	<u>\$ 1,612,567</u>
 <u>LIABILITIES AND NET ASSETS</u>  		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 19,371	\$ 17,025
Grants payable	105,732	125,960
Deferred revenue	6,500	-
Accrued expenses	2,264	7,183
	<u>133,867</u>	<u>150,168</u>
<b>NET ASSETS:</b>		
Unrestricted	469,438	394,332
Temporarily restricted	308,304	231,514
Permanently restricted	<u>888,802</u>	<u>836,553</u>
Total net assets	<u>1,666,544</u>	<u>1,462,399</u>
	<u>\$ 1,800,411</u>	<u>\$ 1,612,567</u>

The accompanying notes are an integral part of this statement.

TREE RESEARCH AND EDUCATION ENDOWMENT FUND  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>PUBLIC SUPPORT AND REVENUE:</b>				
Contributions	\$ 147,428	\$ 54,358	\$ 16,616	\$ 218,402
Special events	518,457	-	-	518,457
In-kind	86,549	-	-	86,549
Merchandise sales	2,233	-	-	2,233
Investment income	58,800	80,385	35,633	174,818
Miscellaneous income	6,170	-	-	6,170
Net assets released from restrictions:				
Satisfaction of purpose and time restrictions	57,953	(57,953)	-	-
Total public support and revenue	877,590	76,790	52,249	1,006,629
<b>EXPENSES:</b>				
Program services -				
Grant and trust programs -				
Direct grants	93,589	-	-	93,589
Hyland R. Johns grants	50,208	-	-	50,208
John Z. Duling grants	101,091	-	-	101,091
Education program	14,517	-	-	14,517
Total program services	259,405	-	-	259,405
Special events	339,327	-	-	339,327
Support services -				
Administration and governance	203,752	-	-	203,752
Total expenses	802,484	-	-	802,484
CHANGE IN NET ASSETS	75,106	76,790	52,249	204,145
NET ASSETS, Beginning of year	394,332	231,514	836,553	1,462,399
NET ASSETS, End of year	\$ 469,438	\$ 308,304	\$ 888,802	\$ 1,666,544

The accompanying notes are an integral part of this statement.

TREE RESEARCH AND EDUCATION ENDOWMENT FUND  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>PUBLIC SUPPORT AND REVENUE:</b>				
Contributions	\$ 93,162	\$ 76,655	\$ 51,687	\$ 221,504
Special events	508,618	-	-	508,618
In-kind	96,779	-	-	96,779
Merchandise sales	-	-	-	-
Investment income	69,019	45,500	22,258	136,777
Miscellaneous income	-	-	-	-
Net assets released from restrictions:				
Satisfaction of purpose and time restrictions	49,992	(49,992)	-	-
Total public support and revenue	817,570	72,163	73,945	963,678
<b>EXPENSES:</b>				
Program services -				
Grant and trust programs -				
Direct grants	129,568	-	-	129,568
Hyland R. Johns grants	30,422	-	-	30,422
John Z. Duling grants	23,762	-	-	23,762
Education program	32,056	-	-	32,056
Total program services	215,808	-	-	215,808
Special events	313,190	-	-	313,190
Support services -				
Administration and governance	244,970	-	-	244,970
Total expenses	773,968	-	-	773,968
CHANGE IN NET ASSETS	43,602	72,163	73,945	189,710
NET ASSETS, Beginning of year	320,730	159,351	792,608	1,272,689
Net assets reclassification	30,000	-	(30,000)	-
NET ASSETS, End of year	\$ 394,332	\$ 231,514	\$ 836,553	\$ 1,462,399

The accompanying notes are an integral part of this statement.

TREE RESEARCH AND EDUCATION ENDOWMENT FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 204,145	\$ 189,710
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,179	5,969
Unrealized (gain) on investments	(161,050)	(128,815)
Change in assets and liabilities:		
(Increase) decrease in pledges receivable	9,858	(12,450)
(Increase) decrease in other contributions and grants receivable	(3,500)	25,859
(Increase) decrease in prepaid expenses	(1,073)	871
Increase in accounts payable	2,346	5,857
Increase (decrease) in grants payable	(20,228)	1,100
Increase in deferred revenue	6,500	-
(Decrease) in accrued expenses	(4,919)	(2,316)
Net adjustments	<u>(166,887)</u>	<u>(103,925)</u>
Net cash provided by operating activities	<u>37,258</u>	<u>85,785</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	-	(12,250)
Purchase of investments, at Chicago Community Trust	<u>(89,096)</u>	<u>(56,206)</u>
Net cash (used in) investing activities	<u>(89,096)</u>	<u>(68,456)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(51,838)</b>	<b>17,329</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<b><u>183,329</u></b>	<b><u>166,000</u></b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<b><u>\$ 131,491</u></b>	<b><u>\$ 183,329</u></b>

The accompanying notes are an integral part of this statement.

TREE RESEARCH AND EDUCATION ENDOWMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The objectives of the Tree Research and Education Endowment Fund (the Fund) are both educational and scientific. The Fund provides a greater appreciation of trees through the promotion of research, improved technology and the practice of professional arboriculture. The Fund's primary revenues consist of special events and contributions from individual donors and various arboriculture-related companies, both public and private.

The financial statements were available to be issued on May 20, 2011, with subsequent events being evaluated through this date.

Use of Estimates -

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Basis of Accounting -

The financial statements of the Fund have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents -

The Fund considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Credit Risk -

Financial instruments which potentially subject the Fund to concentrations of credit risk consist principally of cash. The Fund places its cash and deposits with high credit quality financial institutions; however, during the year deposits may exceed the federally insured limits.

Property and Equipment -

Computer equipment is recorded at cost and is depreciated on the straight-line method over its estimated useful life of three years. Depreciation expense for 2010 and 2009 was \$5,179 and \$5,969, respectively.

Net Assets -

Net assets are classified into one of three classes of net assets based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

*Unrestricted, operating* - Unrestricted net assets include all net assets which are neither temporarily or permanently restricted.

*Unrestricted, designated* - Certain investments have been designated for future use by the Board. The goal is to provide for the development of an endowment sufficient to support significant research efforts, with or without other major ongoing fundraising activities. There are no board-designated net assets at December 31, 2010 and 2009.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Net Assets - (Continued)

*Temporarily restricted* - Temporarily restricted net assets include contributed net assets for which donor-imposed time and purpose restrictions have not been met and ultimate purpose of the contribution is not permanently restricted.

*Permanently restricted* - Permanently restricted net assets include contributed net assets which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Contributions -

Annual contributions are available for unrestricted use in the related year unless specifically restricted by the donor.

Grants that meet the definition of a contribution and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Pledges Receivable -

Pledges receivable are recorded in the fiscal year, in which the notification of an unconditional pledge is received and then are classified as either unrestricted, temporarily restricted or permanently restricted depending on the existence and/or nature of donor restrictions. Pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable. For the years ended December 31, 2010 and 2009, management felt there was no need for an allowance.

(2) DESCRIPTION OF PROGRAMS:

Directed Grants -

Directed grants are funded by a sponsor or donor for a specific project or topic. Proposals for the program are limited to the size specified in the "Request for Proposal". The schedule for submissions of proposals and awarding of the grant is dependent on the individual project.

Hyland R. Johns Grant -

The Hyland R. Johns Grant Program provides funds to priority programs that benefit the arboricultural industry and enhance the many contributions of urban and community forests.

(2) DESCRIPTION OF PROGRAMS: (Continued)

John Z. Duling Grant -

The John Z. Duling Grant Program provides seed money to support research projects that address topics that have benefit to the everyday working arborist. Grant awards vary depending on the assessed value of the project to the needs of the arboricultural industry. No single award will exceed \$10,000.

Tree Research Fellow Grants -

Starting in 2008, the Tree Research Fellow Grant is designed to address a specific topic as defined by the TREE Fund Trustees and to provide support to a young scientist who is being mentored by an established and published scientist. The grant will support multi-year research projects (three to five years in duration), but no more than one grant can be awarded to any project. Grants are for a total of \$100,000 over three years, with approximately one-third released each of the three years, pending completion of interim and final reports.

Education -

The Educational programs support numerous public education endeavors. The Tour des Trees provides educational opportunities through presentations and media interviews on the importance of trees and the role of tree research. Programs include information for pre-school to high school. Programs also describe the career opportunities in arboriculture. Finally, funds may be provided to underwrite student attendance at the TCI Expo.

Scholarships -

The Robert Felix Memorial Scholarship program was established to honor Robert Felix and his commitment to the advancement of arboriculture through education. The Fund provides scholarships to students pursuing a career in commercial arboriculture.

The John Wright Memorial Scholarship is for high school seniors and returning college students interested in a career in arboriculture. Established in 2008 by the Wright Tree Service, Des Moines, IA and funded through an annual gift, the intent of this award is to enable undergraduate-level students to attend college without accumulating burdensome debt.

(3) SPECIAL EVENTS:

Special events consist of raffles, a bike tour, and auctions. The purpose of the special events is to raise financial support and public awareness to stimulate and encourage arboricultural research.

(4) INCOME TAXES:

The Fund is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Fund qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

(4) INCOME TAXES: (Continued)

The Fund files income tax returns in the U.S. federal jurisdiction and Illinois. With few exceptions, the Fund is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2007. The Fund does not expect a material net change in unrecognized tax benefits in the next twelve months.

(5) PLEDGES RECEIVABLE:

Unconditional pledges receivable at December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Receivable in less than one year	\$ 50,000	\$ 70,000
Receivable in greater than one year	<u>50,000</u>	<u>40,000</u>
Total unconditional pledges receivable	100,000	110,000
Less - Discounts to net present value	<u>(1,574)</u>	<u>(1,716)</u>
Net unconditional pledges receivable	<u>\$ 98,426</u>	<u>\$ 108,284</u>

The discount rate used on long-term pledges receivable was 3.25% for 2010 and 2009. The Fund pledges receivable from the various funds as of December 31, 2010 are due as follows:

	<u>Endowment</u>	<u>Other</u>
2011	\$ 20,000	\$ 30,000
2012	<u>20,000</u>	<u>30,000</u>
Total	40,000	60,000
Less - Discount	<u>(630)</u>	<u>(944)</u>
	<u>\$ 39,370</u>	<u>\$ 59,056</u>

(6) INVESTMENTS:

During the year ended December 31, 2008, the Board of the Fund voted to have the Chicago Community Trust (CCT), an unrelated party, manage their investments as a component of the CCT. The CCT established the *Tree Research and Education Endowment Fund* as a CCT investment account. Per agreement, the Fund named itself as beneficiary. Interest and/or principal of the established CCT account will be disbursed to the Fund and used in conformity with spending policy and donor restrictions. As a result of the transfer, the investment held at the CCT is presented in the statement of financial position as an asset, *Due from Chicago Community Trust*.

(6) INVESTMENTS: (Continued)

Investment income, fees and gains for the years ended December 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 13,768	\$ 7,962
Net unrealized gain	<u>161,050</u>	<u>128,815</u>
Total	<u>\$ 174,818</u>	<u>\$ 136,777</u>

(7) FAIR VALUE MEASUREMENTS:

The Accounting Standards Codification (ASC) for Fair Value Measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

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

Level 2: 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.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies.

The asset 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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010 and 2009.

Investment Held at Chicago Community Trust: Fair values for investments are provided by the trust administrator which determines the fair value by reference to quoted market prices and other relevant information generated by market transactions.

(7) FAIR VALUE MEASUREMENTS: (Continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Fund believes their 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.

The following table sets forth by level, within the fair hierarchy, the Fund's assets at fair value:

<u>Description</u>	<u>Assets at Fair Value at December 31, 2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Due from Chicago Community Trust	\$ -	\$ -	\$ 1,551,616	\$ 1,551,616

<u>Description</u>	<u>Assets at Fair Value at December 31, 2009</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Due from Chicago Community Trust	\$ -	\$ -	\$ 1,301,470	\$ 1,301,470

The following table sets forth a summary of changes in the fair value of the Level 3 assets for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Balance, beginning of the year	\$ 1,301,470	\$ 1,116,449
Realized and unrealized gains	161,050	128,815
Purchases and sales, net	89,096	56,206
Balance, end of year	\$ 1,551,616	\$ 1,301,470

(8) GRANTS PAYABLE:

Grants authorized but unpaid at year end are measured at fair value and reported as liabilities in accordance with ASC, *Accounting for Contributions Received and Contributions Made*. The following is a summary of grants authorized and payable at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Hyland R. Johns grants	\$ 47,632	\$ 56,460
Direct grant - Research Fellow	34,000	67,000
Scholarships - Robert Felix	4,500	1,500
- John Wright	1,000	1,000
- Jack Kimmell	18,600	-
Total	\$ 105,732	\$ 125,960

(9) PERMANENTLY AND TEMPORARILY RESTRICTED FUNDS:

General Endowment Fund -

During 2002, the Fund initiated an endowment campaign for the purpose of establishing a self-sustaining fund in which investment revenue would support Fund goals. The minimum balance for an established name endowment fund is \$100,000. Until this level is reached, all earnings are to be reinvested into the named account. Contributions to the endowment fund are permanently restricted by donor. After reaching the \$100,000 fund amount, the investment income going forward will be temporarily restricted and expensed based on donor specifications.

John Duling Fund -

During 2000, the Fund established the fund based on John Duling's will. The principal is to be held in perpetuity and the investment income to be used for general operational purposes.

Robert Felix Fund -

During 2001, the Fund established the Robert Felix Scholarship Fund. The principal is to be held in perpetuity and the investment income to be used for funding of arboriculture or related curricula in high school and college level programs as well as promotion of the arboriculture profession at all educational levels. There should be no more than four scholarships per year of up to \$3,000 each.

Permanently restricted net assets for years ended December 31, 2010 and 2009 consist of:

	<u>2010</u>	<u>2009</u>
James Barborinas Fund	\$ 29,505	\$ 23,724
Gamma Fund	100,000	100,000
John White Fund	26,731	19,759
Mark McClure Research Fund	100,000	100,000
Illinois Arborists Association Fund	31,822	28,060
John Wright Scholarship Fund	12,729	11,224
Arizona Public Service	<u>117,239</u>	<u>83,009</u>
 Total General Endowment Fund	 418,026	 365,776
 John Duling Fund	 197,531	 197,532
Robert Felix Fund	<u>273,245</u>	<u>273,245</u>
 Total permanently restricted net assets	 <u>\$ 888,802</u>	 <u>\$ 836,553</u>

(9) PERMANENTLY AND TEMPORARILY RESTRICTED FUNDS: (Continued)

Temporarily Restricted Funds -

Temporarily restricted net assets for the years ended December 31, 2010 and 2009 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Arborists' Safety and Technique Programs	\$ -	\$ 3,544
Education program	63,411	56,239
Robert Felix Scholarships	157,495	105,786
Research Summit	17,185	17,185
Tree Hazard Project	14,541	14,541
Bacterial Leaf Research	4,489	8,977
Other restricted amounts	<u>51,183</u>	<u>25,242</u>
Total temporarily restricted net assets	<u>\$ 308,304</u>	<u>\$ 231,514</u>

(10) ENDOWMENT:

In August, 2008, the Fund adopted Accounting Standards Codification (ASC) *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*. The codification provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The codification also requires additional disclosures about an organization's endowment funds whether or not the organization is subject to UPMIFA.

The State of Illinois enacted UPMIFA effective June 30, 2009, the provisions of which apply to endowment funds existing on or established after that date. The Fund has adopted the above mentioned codification for the year ended December 31, 2009. The Board has determined that the majority of the Fund's permanently restricted net assets meet the definition of endowment funds under UPMIFA. Based on the Fund's interpretation of UPMIFA, the Fund has reviewed all of its endowment funds and determined that funds are properly classified as permanent and temporarily restricted net assets.

The Fund's endowment consists of ten individual funds established for a variety of purposes. As required by generally accepted accounting principles, 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.

(10) ENDOWMENT: (Continued)

The Board of Directors of the Fund has interpreted the Illinois Prudent Management of Institutional Funds Act (IPMIFA) 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 Fund 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 fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by IPMIFA. In accordance with IPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 Fund, and (7) the Fund's investment policies.

*Investment and Spending Policy.* The Fund 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 these endowment assets over the long term. Endowment assets include those assets of donor-restricted funds that the Fund must hold in perpetuity. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that equals or exceeds the assumed spending rate plus the rate of inflation. The Fund expects its endowment funds, over time, to provide an average rate of return of approximately 7%, net of investment fees. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Fund 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 Fund targets a diversified asset allocation that places an emphasis on U.S. Treasury securities and equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The Fund's spending policy will be at the discretion of the Board as determined by the governing documents for the various donor-restricted funds that make up the endowments and applicable federal and state law.

Endowment net assets composition by type of fund as of December 31, 2010 and 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds:				
2010	\$ -	\$ 157,495	\$ 888,802	\$ 1,046,297
2009	\$ -	\$ 105,786	\$ 836,553	\$ 942,339

(10) ENDOWMENT: (Continued)

Endowment changes by net asset classes for the years ended December 31, 2010 and 2009 are as follow:

	2010			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 105,786	\$ 836,553	\$ 942,339
Contributions	-	-	16,616	16,616
Investment income	-	8,200	2,745	10,945
Net appreciation	-	98,668	32,888	131,556
Appropriated amounts	-	(55,159)	-	(55,159)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 157,495</u>	<u>\$ 888,802</u>	<u>\$ 1,046,297</u>
	2009			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 68,458	\$ 792,608	\$ 861,066
Contributions	-	-	51,687	51,687
Investment income	-	4,724	1,510	6,234
Net appreciation	-	64,956	20,748	85,704
Reclassification	-	-	(30,000)	(30,000)
Appropriated amounts	-	(32,352)	-	(32,352)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 105,786</u>	<u>\$ 836,553</u>	<u>\$ 942,339</u>

(11) EMPLOYEE BENEFITS:

The Fund maintains a 403(b) plan that covers full-time employees. The Fund matches 100% for the first \$750 contributions and 33% for the next \$750 contributions, up to \$1,500. The Fund contributed \$3,450 and \$3,743 for years ended December 31, 2010 and 2009, respectively.

(12) LEASE COMMITMENTS:

The Fund has an office lease that expires in September, 2011. There was rent expense of \$16,639 and \$17,771 as of December 31, 2010 and 2009, respectively. Future minimum lease payments for the remainder of the lease total \$12,276.

(13) RECLASSIFICATION:

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.