B43188

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

January 31, 2014

Board of Directors
Hope House, Inc.
1115 Garden St.
Fort Wayne, IN 46802-4124

We have reviewed the audit report prepared by Leonard J. Andorfer & Co., LLP, Independent Public Accountants, for the period July 1, 2010 to June 30, 2011. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Hope House, Inc., as of June 30, 2011, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

HOPE HOUSE, INC.

FORT WAYNE, INDIANA

Financial Statements

as of June 30, 2011

CONTENTS

LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants

Park Lake Medical Building
2410 Lake Avenue - P. O. Box 5486 - Fort Wayne, Indiana 46895-5486
260-423-9405

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hope House, Inc.
Fort Wayne, Indiana

We have audited the accompanying statements of financial position of Hope House, Inc. (a nonprofit organization) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 the 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 Hope House, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Leonard J. Andorfer & Co., LLP

LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants

August 26, 2011

HOPE HOUSE, INC.

Statements of Financial Position

ASSETS	June 30 2011	June 30 2010
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	$ 122,241	$ 120,335
Accounts receivable - residents	-	283
Grants receivable	21,321	42,550
Prepaid expenses	2,630	2,282
Total Current Assets	146,192	165,450
INVESTMENTS	53,829	49,908
PROPERTY AND EQUIPMENT		
Property and equipment	299,012	303,599
Less: accumulated depreciation	(137,817)	(135,116)
Total Property and Equipment (Net)	161,195	168,483
TOTAL ASSETS	$ 361,216	$ 383,841

(Continued)

The Notes to Financial Statements
are an integral part of the statements.

HOPE HOUSE, INC.

Statements of Financial Position (Continued)

LIABILITIES AND NET ASSETS	June 30 2011	June 30 2010
CURRENT LIABILITIES		
Resident deposits and expenses	$ 450	$ 488
Accounts payable	6,016	10,812
Accrued payroll	5,310	4,004
Total Current Liabilities and Total Liabilities	11,776	15,304
NET ASSETS		
Unrestricted	317,034	333,431
Temporarily restricted	18,475	21,175
Permanently restricted	13,931	13,931
Total Net Assets	349,440	368,537
TOTAL LIABILITIES AND NET ASSETS	$ 361,216	$ 383,841

The Notes to Financial Statements
are an integral part of the statements.

HOPE HOUSE, INC.

Statement of Activities
For the Year Ended June 30, 2011
(With Comparative Totals for the Year Ended June 30, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30 2011 Total	June 30 2010 Total
REVENUE, GAINS AND OTHER SUPPORT					
Support					
Federal Grant - Housing and Urban Development	$ 134,906	$	$	$ 134,906	$ 134,911
Emergency Shelter Grants	47,778			47,778	48,293
State and local grants	20,521			20,521	15,390
Drug and Alcohol Consortium - scholarship	14,648			14,648	9,900
Foundations	44,375	16,425		60,800	63,529
United Way	20,000			20,000	20,000
Fund raising events					
Proceeds	11,642	2,050		13,692	11,870
Less: cost of direct benefit to donors	(1,688)			(1,688)	(1,260)
Contributions	16,424			16,424	19,681
Miscellaneous	731			731	116
Revenue					
Rental and supportive housing revenue					
Client fees	56,733			56,733	39,868
Reimbursement from state	18,638			18,638	43,720
Net investment income	4,331			4,331	2,662
Net assets released from restrictions					
Restrictions satisfied by payments	21,175	(21,175)		-	-
Total Revenue, Gains, Other Support and Net Assets Released from Restrictions	410,214	(2,700)	-	407,514	408,680
EXPENSES					
Program services	382,467			382,467	310,571
Management and general	30,377			30,377	53,698
Fund raising	13,767			13,767	24,816
Total Expenses	426,611	-	-	426,611	389,085
CHANGE IN NET ASSETS	(16,397)	(2,700)	-	(19,097)	19,595
NET ASSETS - BEGINNING OF YEAR	333,431	21,175	13,931	368,537	348,942
NET ASSETS - END OF YEAR	$ 317,034	$ 18,475	$ 13,931	$ 349,440	$ 368,537

The Notes to Financial Statements
are an integral part of the Statements.

HOPE HOUSE, INC.

Statement of Activities
For the Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30 2010 Total
REVENUE, GAINS AND OTHER SUPPORT				
Support				
Federal Grant - Housing and Urban Development	$ 134,911	$	$	$ 134,911
Emergency Shelter Grants	48,293			48,293
State grants	15,390			15,390
Drug and Alcohol Consortium - scholarship	9,900			9,900
Foundations	42,354	21,175		63,529
United Way	20,000			20,000
Fund raising events				
Proceeds	11,870			11,870
Less: cost of direct benefit to donors	(1,260)			(1,260)
Contributions	19,681			19,681
Miscellaneous	116			116
Revenue				
Rental and supportive housing revenue				
Client fees	39,868			39,868
Reimbursement from state	43,720			43,720
Net investment income	2,662			2,662
Net assets released from restrictions				
Restrictions satisfied by payments	15,000	(15,000)		-
Total Revenue, Gains, Other Support and Net Assets Released from Restrictions	402,505	6,175	-	408,680
EXPENSES				
Program services	310,571			310,571
Management and general	53,698			53,698
Fund raising	24,816			24,816
Total Expenses	389,085	-	-	389,085
CHANGE IN NET ASSETS	13,420	6,175	-	19,595
NET ASSETS - BEGINNING OF YEAR	320,011	15,000	13,931	348,942
NET ASSETS - END OF YEAR	$ 333,431	$ 21,175	$ 13,931	$ 368,537

The Notes to Financial Statements
are an integral part of the Statements.

HOPE HOUSE, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2011
(With Comparative Totals for the Year Ended June 30, 2010)

	Program Services	Management and General	Fund Raising	Total 2011 Expenses	Total 2010 Expenses
Employee Compensation					
Salaries	$ 236,340	$ 7,925	$ 7,938	$ 252,203	$ 235,102
Payroll taxes	20,840	699	700	22,239	20,543
Employee benefits	36,721	1,231	1,233	39,185	40,972
Total Employee Compensation	293,901	9,855	9,871	313,627	296,617
Other Expenses					
Advertising			1,147	1,147	1,693
Bad debt expense				-	62
Contract services	10,058	10,205	1,671	21,934	3,854
Counseling	9,539			9,539	8,278
Craft and jewelry expense	3,054			3,054	-
Dues				-	659
Fund raising expenses			587	587	759
Groceries and household supplies	13,577			13,577	12,718
Insurance	5,475	1,048		6,523	6,004
Lab fees	3,833			3,833	3,199
Legal and professional		4,850		4,850	4,650
Miscellaneous expenses	894	129		1,023	2,099
Office expenses	3,079	577	192	3,848	3,408
Payroll processing fees				-	948
Printing	57	515		572	5
Repairs and maintenance	3,837			3,837	7,745
Residential services	1,638			1,638	1,503
Staff training	702			702	874
Technology	1,432	358	299	2,089	3,629
Transportation	933			933	684
Travel	552	1,656		2,208	1,479
Utilities	19,207	384		19,591	16,550
Total Before Depreciation	371,768	29,577	13,767	415,112	377,417
Depreciation expense	10,699	800		11,499	11,668
Total Expenses	$ 382,467	$ 30,377	$ 13,767	$ 426,611	$ 389,085

The Notes to Financial Statements
are an integral part of the statements.

HOPE HOUSE, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2010

	Program Services	Management and General	Fund Raising	Total 2010 Expenses
Employee Compensation				
Salaries	$ 192,053	$ 23,981	$ 19,068	$ 235,102
Payroll taxes	16,782	2,095	1,666	20,543
Employee benefits	33,470	4,179	3,323	40,972
Total Employee Compensation	242,305	30,255	24,057	296,617
Other Expenses				
Advertising		1,693		1,693
Bad debt expense	62			62
Counseling	8,278			8,278
Contract services		3,854		3,854
Dues		659		659
Fund raising expenses			759	759
Groceries and household supplies	12,718			12,718
Insurance	4,404	1,600		6,004
Lab fees	3,199			3,199
Legal and professional		4,650		4,650
Miscellaneous expenses	2,099			2,099
Office expenses		3,408		3,408
Payroll processing fees		948		948
Printing		5		5
Repairs and maintenance	7,745			7,745
Residential services	1,503			1,503
Staff training	874			874
Technology		3,629		3,629
Transportation	684			684
Travel	1,479			1,479
Utilities	13,553	2,997		16,550
Total Before Depreciation	298,903	53,698	24,816	377,417
Depreciation expense	11,668			11,668
Total Expenses	$ 310,571	$ 53,698	$ 24,816	$ 389,085

The Notes to Financial Statements
are an integral part of the statements.

HOPE HOUSE, INC.

Statements of Cash Flows

	For the Years Ended June 30, 2011	For the Years Ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	($ 19,097)	$ 19,595
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	11,499	11,669
Unrealized gain on investments	(2,835)	(1,592)
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable	283	298
Decrease (increase) in grants receivable	21,229	1,237
Decrease (increase) in prepaid expenses	(348)	16,515
Increase (decrease) in resident deposits and expenses	(38)	(862)
Increase (decrease) in accounts payable	(4,796)	2,018
Increase (decrease) in accrued expenses	1,306	(6,763)
Net Cash Provided by Operating Activities	7,203	42,115
CASH FLOWS FROM INVESTING ACTIVITIES		
Property acquisitions	(4,211)	(8,792)
Increase in investments	(1,086)	(730)
Net Cash Used for Investing Activities	(5,297)	(9,522)
CASH FLOWS FROM FINANCING ACTIVITIES		
None	-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,906	32,593
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	120,335	87,742
CASH AND CASH EQUIVALENTS- END OF YEAR	$ 122,241	$ 120,335

The Notes to Financial Statements
are an integral part of the statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Nature of Activities

The mission of Hope House, Inc. is to provide homeless, chemically dependent women of Allen County, Indiana with opportunities to pursue recovery and self-sufficiency in a healthy, supportive living environment.

NOTE 2 – Summary of Significant Accounting Policies

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Hope House, Inc. 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 Hope House, Inc. and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in net unrestricted assets if the restriction expires or is met in the reported period in which the support is recognized.
>
> **Permanently Restricted Net Assets –** Net assets subject to donor-imposed stipulations that they be maintained permanently by Hope House, Inc. Generally, the donors of these assets permit Hope House, Inc. to use all or part of the income earned on any related investments for general or specific purposes. The Board of Hope House, Inc. elected to direct endowment funds to the Community Foundation of Greater Fort Wayne (See Note 5).

Financial Statement Presentation - The organization has adopted FASB ASC 958-210-45-8 (prior authoritative literature Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations"). Under FASB ASC 958-210-45-8, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the organization is required to present a statement of cash flows.

Promise to Give - Contributions are recognized when the donor makes a promise to give to the organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions - The organization has adopted FASB ASC 958-605-05 (prior authoritative literature SFAS No. 116, "Accounting for Contributions Received and Contributions Made"). In accordance with FASB ASC 958-605-05, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Donated Materials and Services – Donated services are recognized as contributions in accordance with FASB ASC 958-605-05 (prior authoritative literature SFAS 116, Accounting for Contributions Received and Contributions Made"), if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise by purchased by the Organization. During the year ended June 30, 2011 and 2010 there were no contributed materials and services meeting the requirements for recognition in the financial statements.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Uncollectible Accounts Receivable - Management has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

Property and Equipment - Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is depreciated using the straight-line method.

Functional Expenses - Hope House, Inc. allocates its expenses on a functional basis among its programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Other expenses that are common to multiple functions are allocated by various statistical bases.

Income Taxes - Hope House, Inc. is a nonprofit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the 50% charitable contribution limitation.

The organization has adopted FASB ASC 710-10-25 (prior authoritative literature FIN 48 – Accounting for Uncertainty of Income Taxes), and determined no material unrecognized tax benefits or liabilities exist as of June 30, 2011. The adoption of FASB ASC 740-10-25 did not impact the organization's financial position or results of operations. If applicable, the organization will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of June 30, 2011, the organization had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The organization does not anticipate any significant changes to unrecognized income tax benefits over the next year.

Advertising Costs - Advertising and promotional program costs are charged to expense during the period in which they are incurred.

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Compensated Absences - The organization's employee base is made up of full-time and part-time employees. No liability for compensated absences has been recorded in the financial statements. Any liability that may exist is deemed immaterial.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification – Certain June 30, 2010 amounts as previously reported have been reclassified to conform to the June 30, 2011 presentation. The reclassifications have no effect on net income for the year ending June 30, 2010.

NOTE 3 – Concentration of Credit Risk

The organization maintains cash balances at two financial institutions. Deposits at these institutions are insured by the Federal Deposit Insurance Corporation. Insured limits were permanently increased from $100,000 to $250,000 on July 21, 2010. No uninsured cash balances existed at June 30, 2011 and 2010.

NOTE 4 - Grants Receivable

Hope House, Inc. incurs expenses and then submits requests for reimbursement by third-party grantors. The reimbursement requests are reviewed by the grantor, taking into consideration the purpose of the expenditures, the amount of the original grant and the provisions set forth. Grants receivable under these terms amounted to $9,771 and $22,550 as of June 30, 2011 and 2010, respectively.

Grants receivable for the years ended June 30, 2011 and 2010 also include additional amounts of $11,550 and $20,000, respectively, from local foundations which are listed as temporarily restricted net assets in Note 9.

NOTE 5 – Investments

Investments are recorded at fair market value and consist of the following as of June 30, 2011 and 2010:

	2011	2010
Certificates of deposit	$ 35,849	$ 35,424
Investment - Community Foundation of Greater Fort Wayne	17,980	14,484
	$ 53,829	$ 49,908

Additionally, the Community Foundation of Greater Fort Wayne holds investment assets with a value of $6,159 and $4,595 at June 30, 2011 and 2010, respectively, for the benefit of the Organization for which they have retained variance power. These assets are not recorded as assets of the Organization.

NOTE 5 – Investments (Continued)

Net investment income consisted of the following:

	June 30 2011	June 30 2010
Interest income and realized gains	$ 1,638	$ 1,070
Unrealized gains	2,835	1,737
Investment management fees	(142)	(145)
Total	$ 4,331	$ 2,662

NOTE 6 – Fair Value of Financial Instruments

FASB ASC 820-10-50-1 (prior authoritative literature SFAS No. 157, "Fair Value Measurements" as amended), requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by Hope House, Inc. impacted by this pronouncement include the investments held at market value.

FASB ASC 820-10-50-1 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of input described below:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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

Fair value of financial instruments as of June 30, 2011 is as follows:

	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Certificates of deposit	$ 35,849	$	$
Community Foundation of Greater Fort Wayne			17,980

NOTE 6 – Fair Value of Financial Instruments (Continued)

Fair value of financial instruments as of June 30, 2010 is as follows:

	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Certificates of deposit	$ 35,424	$	$
Community Foundation of Greater Fort Wayne			14,484

The table below presents a reconciliation and statement of activities classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2011:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Beginning Balance - July 1, 2010	$ 14,484
Total gains or losses (realized/unrealized) included in earnings:	
Interest and dividend income on securities	610
Unrealized gains	2,835
Realized gains on sale of securities	193
Investment fees	(142)
Ending Balance - June 30, 2011	$ 17,980

The table below presents a reconciliation and statement of activities classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2010:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Beginning Balance - July 1, 2009	$ 12,892
Total gains or losses (realized/unrealized) included in earnings:	
Interest and dividend income on securities	464
Unrealized gains	1,744
Realized losses on sale of securities	(471)
Investment fees	(145)
Ending Balance - June 30, 2010	$ 14,484

NOTE 7 – Line of Credit

The Organization has entered into an agreement with 1st Source Bank for a $31,000 line of credit. The note is secured by a $10,000 certificate of deposit and the money management account, bears interest at the bank's prime interest rate plus 1.75%, currently 5%, and expires November 7, 2011. Interest is due monthly on any outstanding balance. As of June 30, 2011 and 2010, there were no outstanding balances.

NOTE 8 - Sponsorships

Hope House, Inc. sponsors Genesis Outreach, Inc. for various grant collaborations for the provision of transitional residential client services. Income from the Housing and Urban Development Grant (HUD) includes funds specifically allocated as follows:

	2011	2010
Total HUD Grant Received	$ 198,554	$ 198,571
Less: allocated to Genesis Outreach, Inc.	63,648	63,660
Income retained by Hope House, Inc.	$ 134,906	$ 134,911

Accounts payable for the years ended June 30, 2011 and 2010 include amounts of $5,306 and $5,304, respectively, due to Genesis Outreach, Inc.

NOTE 9 - Restrictions on Assets

Temporarily restricted net asset are available for the following purposes:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011
The St. Joseph Community Health Foundation - Fostering Recovery	$ -	$ 15,500	$ 9,075	$ 6,425
The St. Joseph Community Health Foundation - Conference	1,175		1,175	-
Foellinger Foundation - Operational Support	20,000		20,000	-
Community Foundation of Greater Fort Wayne - Operational Support	-	20,000	10,000	10,000
30th Anniversary Event	-	2,050		2,050
	$ 21,175	$ 37,550	$ 40,250	$ 18,475

NOTE 10 – Endowment

The Organization's endowment consists of one fund established for providing revenue from earnings. Its endowment includes donor restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with permanently restricted funds, including designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor permanently restricted funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts, (b) the original value of subsequent gifts, and (c) accumulations 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 fund that is not classified in permanently restricted net assets is classified as designated net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

The duration and preservation of the fund
The purposes of the organization and the donor-restricted fund
General economic conditions
The possible effect of inflation and deflation
The expected total return from income and the appreciation of investments
Other resources of the organization
The investment policies of the organization

Endowment net asset composition by type of fund as of June 30, 2011, is as follows:

	Unrestricted	Permanently Restricted	Total
Donor-restricted funds	$	$ 13,931	$ 13,931

Endowment net asset composition by type of fund as of June 30, 2010, is as follows:

	Unrestricted	Permanently Restricted	Total
Donor-restricted funds	$	$ 13,931	$ 13,931

NOTE 10 – Endowment (Continued)

Changes in endowment net assets for the year ended June 30, 2011, are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment net assets - beginning of year	$ 553	$ 13,931	$ 14,484
Investment return:			
Dividends, interest and realized investment gains		803	803
Unrealized gains		2,835	2,835
Total investment return		3,638	3,638
Appropriation of endowment assets for expenditures		(142)	(142)
Transfers	3,496	(3,496)	-
Endowment net assets - end of year	$ 4,049	13,931	17,980

Changes in endowment net assets for the year ended June 30, 2010, are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment net assets - beginning of year	($ 1,039)	$ 13,931	$ 12,892
Investment return:			
Dividends, interest and realized investment losses		(7)	(7)
Unrealized gains		1,744	1,744
Total investment return		1,737	1,737
Appropriation of endowment assets for expenditures		(145)	(145)
Transfer	1,592	(1,592)	-
Endowment net assets - end of year	$ 553	$ 13,931	$ 14,484

NOTE 10 – Endowment (Continued)

Funds With Deficiencies – From time to time, the fair value of assets associated with individual donor permanently restricted funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable investment performance due to unfavorable market conditions for the investments supporting the permanently restricted and designated net assets.

Return Objectives and Risk Parameters – The organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period as well as designated funds. The Organization expects its endowment fund, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Organization 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).

Spending Policy – The Organization has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior four quarters through the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the organization'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.

NOTE 11 – Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 26, 2011, the date the financial statements were available to be issued.