

**THE FUND FOR TEACHERS: A FOUNDATION TO
RECOGNIZE, STIMULATE AND ENHANCE**

FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Fund For Teachers: A Foundation to Recognize, Stimulate and Enhance
Houston, Texas

We have audited the accompanying statements of financial position of The Fund For Teachers: A Foundation to Recognize, Stimulate and Enhance (a nonprofit Texas corporation) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. 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 The Fund For Teachers: A Foundation to Recognize, Stimulate and Enhance at December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States.

Harper & Pearson Company, P.C.

Houston, Texas
June 29, 2012

**THE FUND FOR TEACHERS: A FOUNDATION TO RECOGNIZE, STIMULATE AND ENHANCE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010**

ASSETS	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 419,133	\$ 1,800,055
Investment securities	20,653,760	20,195,639
Pledges and other receivables	<u>69,829</u>	<u>83,641</u>
Total current assets	21,142,722	22,079,335
OTHER ASSETS		
Overriding royalty interests, net of accumulated depletion	23,490	26,962
Long term pledges receivable, net of discount	<u>49,500</u>	<u>98,896</u>
TOTAL ASSETS	<u>\$ 21,215,712</u>	<u>\$ 22,205,193</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ <u>155,433</u>	\$ <u>92,696</u>
Total current liabilities	<u>155,433</u>	<u>92,696</u>
NET ASSETS		
Unrestricted	19,077,231	19,539,887
Temporarily restricted	<u>1,983,048</u>	<u>2,572,610</u>
Total net assets	<u>21,060,279</u>	<u>22,112,497</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,215,712</u>	<u>\$ 22,205,193</u>

**THE FUND FOR TEACHERS: A FOUNDATION TO RECOGNIZE, STIMULATE AND ENHANCE
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>			<u>2010</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT						
Contributions	\$ 513,978	\$ 766,917	\$ 1,280,895	\$ 509,735	\$ 800,771	\$ 1,310,506
Overriding royalty interest income, net	17,361	-	17,361	10,629	-	10,629
Investment security income, net	529,536	-	529,536	1,645,178	-	1,645,178
Special events	120,070	-	120,070	91,975	-	91,975
Assets released from restrictions	<u>1,356,479</u>	<u>(1,356,479)</u>	<u>-</u>	<u>2,142,646</u>	<u>(2,142,646)</u>	<u>-</u>
Total Revenues and Support	<u>2,537,424</u>	<u>(589,562)</u>	<u>1,947,862</u>	<u>4,400,163</u>	<u>(1,341,875)</u>	<u>3,058,288</u>
EXPENSES						
Program:						
Grants paid	1,495,809	-	1,495,809	1,526,912	-	1,526,912
Program support	<u>590,077</u>	<u>-</u>	<u>590,077</u>	<u>703,342</u>	<u>-</u>	<u>703,342</u>
Total Program	<u>2,085,886</u>	<u>-</u>	<u>2,085,886</u>	<u>2,230,254</u>	<u>-</u>	<u>2,230,254</u>
Supporting Services:						
Management and general	673,783	-	673,783	428,710	-	428,710
Fundraising and special events	<u>236,939</u>	<u>-</u>	<u>236,939</u>	<u>195,663</u>	<u>-</u>	<u>195,663</u>
Total Supporting Services	910,722	-	910,722	624,373	-	624,373
Depletion expense	<u>3,472</u>	<u>-</u>	<u>3,472</u>	<u>3,472</u>	<u>-</u>	<u>3,472</u>
Total Expenses	<u>3,000,080</u>	<u>-</u>	<u>3,000,080</u>	<u>2,858,099</u>	<u>-</u>	<u>2,858,099</u>
CHANGE IN NET ASSETS	(462,656)	(589,562)	(1,052,218)	1,542,064	(1,341,875)	200,189
NET ASSETS, BEGINNING OF YEAR	<u>19,539,887</u>	<u>2,572,610</u>	<u>22,112,497</u>	<u>17,997,823</u>	<u>3,914,485</u>	<u>21,912,308</u>
NET ASSETS, END OF YEAR	<u>\$ 19,077,231</u>	<u>\$ 1,983,048</u>	<u>\$ 21,060,279</u>	<u>\$ 19,539,887</u>	<u>\$ 2,572,610</u>	<u>\$ 22,112,497</u>

See accompanying notes.

**THE FUND FOR TEACHERS: A FOUNDATION TO RECOGNIZE, STIMULATE AND ENHANCE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,052,218)	\$ 200,189
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depletion expense	3,472	3,472
Net realized and unrealized gains on investment securities	(166,754)	(1,184,922)
Changes in operating assets and liabilities:		
Pledges and other receivables	63,208	340,337
Accounts payable and accrued expenses	<u>62,737</u>	<u>36,323</u>
Net cash used by operating activities	<u>(1,089,555)</u>	<u>(604,601)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investment securities	9,411,639	6,905,717
Purchase of investment securities	<u>(9,703,006)</u>	<u>(7,318,658)</u>
Net cash used by investing activities	<u>(291,367)</u>	<u>(412,941)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,380,922)	(1,017,542)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,800,055</u>	<u>2,817,597</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 419,133</u>	<u>\$ 1,800,055</u>

**THE FUND FOR TEACHERS: A FOUNDATION TO RECOGNIZE, STIMULATE AND ENHANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE A ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fund For Teachers: A Foundation to Recognize, Stimulate and Enhance (the "Foundation") is a Texas not-for-profit corporation that commenced operations on May 10, 2001. The Foundation was formed exclusively for educational, charitable, and literary purposes. Specifically, the Foundation's mission is to enrich the professional growth of teachers by recognizing and supporting them as they identify and pursue opportunities around the globe that will have the greatest impact on their practice, the academic lives of their students, and on their school communities. The activities of the Foundation include making grants directly to teachers throughout the United States so that they may have sufficient financial resources to participate in training and enrichment activities that will improve and enhance their skills and capacities as teachers.

Use of Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from these estimates.

Concentrations of Credit Risk - Financial instruments, which subject the Foundation to concentrations of credit risk, consist principally of cash and cash equivalents, pledges and other receivables, and investment securities. Cash and cash equivalents consist of demand deposits and money market mutual funds available for operations. Cash and cash equivalents are maintained with financial institutions and brokerage firms in the United States. Deposits with financial institutions may exceed the amount of federal deposit insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. Money market funds, brokerage accounts and private investment funds are not insured. In monitoring this credit risk, the Foundation periodically evaluates the stability of the financial institutions and money managers that hold or invest its funds.

No collateral or other security is required to support pledges and other receivables. An allowance for doubtful accounts is established as needed based upon factors surrounding the credit risk of specific donors and debtors, historical trends and other information. Management estimates that all receivables are collectible, thus no allowance for uncollectible amounts has been recorded. At December 31, 2011 and 2010, 84% and 82%, respectively, of pledges and other receivables were due from one donor.

During 2011 and 2010, approximately 80% and 77%, respectively of contributions were received from related parties.

Investment Risk - The Foundation's investments in securities subject the Foundation to various levels of risk associated with economic, operating, and political events beyond management's control. Consequently, management's judgment as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on the Foundation's investments. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks could materially impact the amounts reflected herein.

**THE FUND FOR TEACHERS: A FOUNDATION TO RECOGNIZE, STIMULATE AND ENHANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE A ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Investments - Investments are reported at fair value. Fair value is 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.

Contributions - Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. The Foundation reports contributions as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Contributions that are restricted by the donor for future periods or a specific purpose are reported as increases in temporarily restricted net assets. 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.

In-kind contributions are reflected as contributions at their estimated fair value at date of donation. The Foundation liquidates contributed stock immediately upon receipt and records the proceeds as contributions. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services are recorded at their estimated fair value at the date of receipt.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give that are expected to be collected after one year or more are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Investment Security Income, Net - Interest, realized gains and losses, and the net change in unrealized appreciation or depreciation of investment securities during the year are recorded as investment security income in unrestricted net assets in the statement of activities unless the use of the income is limited by donor-imposed restrictions. Income whose use is restricted by the donor is reported as an increase in temporarily restricted net assets.

Grants Paid - Grants paid include all direct grant awards made to educators. The costs of administering the grants are included in program support.

Federal Income Tax - The Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). However, the Foundation is subject to taxes on unrelated business income. During 2011 and 2010, there was no unrelated business income.

**THE FUND FOR TEACHERS: A FOUNDATION TO RECOGNIZE, STIMULATE AND ENHANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE A ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GAAP requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Foundation believes that all significant tax positions utilized by the Foundation will more likely than not be sustained upon examination. As of December 31, 2011, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2008 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as management and general expense in the statement of activities.

Reclassifications - In 2011, management began allocating certain expenses from general and administrative to program support and fundraising. Certain 2010 expenses have been reclassified to conform to the 2011 presentation. There was no impact on change in net assets for either year due to this change.

Subsequent Events - The Foundation has evaluated subsequent events through June 29, 2012, the date the financial statements were available to be issued. No subsequent events occurred which require adjustment to or disclosure in the financial statements at December 31, 2011.

NOTE B INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Foundation invests in various securities including direct investments in equity and fixed income securities, exchange traded funds, and real estate investment trusts (REITs), all of which are traded on the open market. In addition, the Foundation has investments in a privately offered multi-asset mutual fund and two private investment funds, commonly referred to as hedge funds. The private investment funds are classified by the Foundation as alternative investments. Equity securities include domestic and foreign common stocks and equity index shares. Fixed income securities include corporate bonds and notes, fixed income index shares and U.S. government and sovereign debt obligations. The two private investment funds are structured as master-feeder funds in which the master fund is registered under the Investment Company Act of 1940, as amended. Liquidity is limited on these investments and there are certain restrictions on redemption, which could result in a substantial period of time between the date repurchase is requested by the Foundation and the date payment is received. In addition, the master fund has the right to refuse the repurchase of an investor's interests.

GAAP provides a framework for measuring fair value using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments and the lowest priority to unobservable inputs. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The financial instrument'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.

NOTE B INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

These inputs are summarized in the three broad levels listed below:

Level 1 – Unadjusted quoted prices for identical financial instruments in active markets that the Foundation has the ability to access.

Level 2 – Other significant observable inputs (including quoted prices in active and inactive markets for similar assets or liabilities), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial instruments.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the financial instruments. The fair value of Level 3 financial instruments is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Following is a description of the valuation techniques used for investments measured at fair value.

Investments in the privately offered multi-asset mutual fund and the two private investment funds are valued by the individual fund managers on a monthly basis using fair values of underlying assets, estimates of future earnings and other valuation techniques.

All other investments held are traded in active markets and valued at the most recent trade prices quoted.

During 2011 and as a result of a clearer understanding of the valuation techniques used by fund managers to value the Foundation's investments in private investment funds, the classification of certain investments within the valuation hierarchy was changed. Reclassifications were made within the 2010 table to conform to the 2011 presentation. The Foundation believes its valuation techniques are appropriate and consistent with other market participants; however, the use of different techniques or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**THE FUND FOR TEACHERS: A FOUNDATION TO RECOGNIZE, STIMULATE AND ENHANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE B INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The fair values of investments are categorized as follows at December 31, 2011 and 2010:

	2011			Total
	Level 1	Level 2	Level 3	
Government bonds	\$ 2,691,870	\$ -	\$ -	\$ 2,691,870
Fixed income funds	1,579,234	-	-	1,579,234
Domestic equities	1,876,523	-	-	1,876,523
Domestic equity funds	2,240,542	-	-	2,240,542
Foreign equity funds	2,258,759	-	-	2,258,759
Multi-asset mutual fund	-	4,577,791	-	4,577,791
Alternative investments	-	-	5,429,041	5,429,041
	<u>\$ 10,646,928</u>	<u>\$ 4,577,791</u>	<u>\$ 5,429,041</u>	<u>\$ 20,653,760</u>

	2010			Total
	Level 1	Level 2	Level 3	
Money market account	\$ 1,467,637	\$ -	\$ -	\$ 1,467,637
Government bonds	1,249,425	-	-	1,249,425
Corporate bonds	1,348,552	-	-	1,348,552
Fixed income funds	1,150,154	-	-	1,150,154
Domestic equities	2,686,813	-	-	2,686,813
Foreign equities	340,788	-	-	340,788
Domestic equity funds	316,029	-	-	316,029
Foreign equity funds	80,893	-	-	80,893
Multi-asset mutual fund	-	4,656,974	-	4,656,974
REITs	1,586,078	-	-	1,586,078
Alternative investments	-	-	5,312,296	5,312,296
	<u>\$ 10,226,369</u>	<u>\$ 4,656,974</u>	<u>\$ 5,312,296</u>	<u>\$ 20,195,639</u>

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 investments:

Balance as of December 31, 2009	\$ 5,191,872
Net realized and unrealized gain included in change in net assets	164,475
Purchases	2,425,000
Sales	<u>(2,469,051)</u>
Balance as of December 31, 2010	5,312,296
Net realized and unrealized gain included in change in net assets	<u>116,745</u>
Balance as of December 31, 2011	<u>\$ 5,429,041</u>

**THE FUND FOR TEACHERS: A FOUNDATION TO RECOGNIZE, STIMULATE AND ENHANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE C PLEDGES AND OTHER RECEIVABLES

Pledges and other receivables consist of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Due in less than one year	\$ 69,829	\$ 83,641
Due in one to five years	50,000	100,000
Less unamortized discount at 0.74%	<u>(500)</u>	<u>(1,104)</u>
Long term pledges receivable, net	<u>49,500</u>	<u>98,896</u>
Total pledges and other receivables	<u>\$ 119,329</u>	<u>\$ 182,537</u>

NOTE D INVESTMENT SECURITY INCOME

During 2011 and 2010, investment security income, including interest earned on cash and cash equivalents consists of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 362,782	\$ 460,256
Net realized and unrealized gains	<u>166,754</u>	<u>1,184,922</u>
Investment security income	<u>\$ 529,536</u>	<u>\$ 1,645,178</u>

NOTE E OVERRIDING ROYALTY INTERESTS

During 2001, the Foundation received a donation of overriding royalty interests in oil and natural gas producing properties. Based on a third party valuation, these contributed overriding royalty interests were recorded at estimated fair value on the date of contribution. Certain of the properties were sold subsequent to the gift. The original basis of the remaining interests at both December 31, 2011 and 2010 is \$65,000. As an owner of overriding royalty interests, the Foundation is not responsible for any costs associated with exploration and development activities and does not intend to participate in these activities in the future.

Depletion is recorded using the unit-of-production method. Royalty income is recorded net of production taxes of \$1,077 and \$785 for 2011 and 2010, respectively.

**THE FUND FOR TEACHERS: A FOUNDATION TO RECOGNIZE, STIMULATE AND ENHANCE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE F RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets are restricted for the following programs at December 31, 2011 and 2010:

	2011	2010
Houston Programs	\$ 650,652	\$ 851,568
Asian Fellowship Program	589,550	784,793
Pi Society - Math Fellowships	365,346	432,773
Oklahoma Program	377,500	377,500
Rural School Program	-	101,872
Nebraska Program	-	24,104
	\$ 1,983,048	\$ 2,572,610

NOTE G RELATED PARTY TRANSACTIONS

Members of the Board of Directors and the founding corporate contributor are considered related parties. All individuals who perform services for the Foundation are employees of the founding corporation. In addition, the founding corporation provides office space, utilities, supplies and equipment at no charge to the Foundation. Balances and transactions with related parties are as follows at and for the years ended December 31, 2011 and 2010:

	2011	2010
Pledges receivable	\$ 100,000	\$ 150,000
Accounts payable and accrued expenses	\$ 134,045	\$ 62,772
Contributions	\$ 445,550	\$ 405,870
In-kind contributions of salaries and benefits	\$ 600,000	\$ 600,000
In-kind contributions of office space	\$ 73,118	\$ 70,825