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Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation

2011

Department of the Treasury Internal Revenue Service

Note: The foundation may be able to use a copy of this return to satisfy state reporting requirements

For calendar year 2011, or tax year beginning 2011, and ending

THE GRAGG FOUNDATION P.O. BOX 678 PALESTINE, TX 75802-0678

Employer identification number 02-0762912 Telephone number 903-729-2197

Check all that apply: Initial return, Final return, Address change, Initial Return of a former public charity, Amended return, Name change

Check type of organization: Section 501(c)(3) exempt private foundation, Section 4947(a)(1) nonexempt charitable trust, Other taxable private foundation

Fair market value of all assets at end of year: \$ 2,216,172. Accounting method: Cash

Table with 4 columns: (a) Revenue and expenses per books, (b) Net investment income, (c) Adjusted net income, (d) Disbursements for charitable purposes

SCANNED NOV 29 2012

Table rows 1-12: Contributions, interest, dividends, gross rents, net gain, capital gain, other income, total

Table rows 13-27: Compensation, legal fees, interest, depreciation, occupancy, travel, printing, total operating and administrative expenses, total expenses and disbursements, excess of revenue over expenses

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Part II Balance Sheets		Attached schedules and amounts in the description column should be for end-of-year amounts only (See instructions)			
		Beginning of year	End of year		
		(a) Book Value	(b) Book Value	(c) Fair Market Value	
ASSETS	1	Cash – non-interest-bearing	269,969.		
	2	Savings and temporary cash investments	389,000.	303,740.	303,740.
	3	Accounts receivable			
		Less allowance for doubtful accounts			
	4	Pledges receivable			
		Less allowance for doubtful accounts			
	5	Grants receivable			
	6	Receivables due from officers, directors, trustees, and other disqualified persons (attach schedule) (see instructions)			
	7	Other notes and loans receivable (attach sch)			
		Less allowance for doubtful accounts			
	8	Inventories for sale or use			
	9	Prepaid expenses and deferred charges			
	10a	Investments – U.S. and state government obligations (attach schedule)			
	b	Investments – corporate stock (attach schedule)	275,677.	1,656,517.	1,661,660.
	c	Investments – corporate bonds (attach schedule)	1,104,981.	247,850.	250,772.
	11	Investments – land, buildings, and equipment basis			
	Less accumulated depreciation (attach schedule)				
12	Investments – mortgage loans				
13	Investments – other (attach schedule)				
14	Land, buildings, and equipment basis				
	Less accumulated depreciation (attach schedule)				
15	Other assets (describe <input type="checkbox"/> See Statement 4)		80.		
16	Total assets (to be completed by all filers – see the instructions. Also, see page 1, item 1)	2,039,627.	2,208,187.	2,216,172.	
LIABILITIES	17	Accounts payable and accrued expenses			
	18	Grants payable			
	19	Deferred revenue			
	20	Loans from officers, directors, trustees, & other disqualified persons			
	21	Mortgages and other notes payable (attach schedule)			
	22	Other liabilities (describe <input type="checkbox"/>)			
	23	Total liabilities (add lines 17 through 22)	0.	0.	
NET ASSETS OR FUND BALANCES	Foundations that follow SFAS 117, check here and complete lines 24 through 26 and lines 30 and 31. <input type="checkbox"/>				
	24	Unrestricted			
	25	Temporarily restricted			
	26	Permanently restricted			
	Foundations that do not follow SFAS 117, check here and complete lines 27 through 31. <input checked="" type="checkbox"/>				
	27	Capital stock, trust principal, or current funds			
	28	Paid-in or capital surplus, or land, building, and equipment fund			
	29	Retained earnings, accumulated income, endowment, or other funds	2,039,627.	2,208,187.	
	30	Total net assets or fund balances (see instructions)	2,039,627.	2,208,187.	
31	Total liabilities and net assets/fund balances (see instructions)	2,039,627.	2,208,187.		

Part III Analysis of Changes in Net Assets or Fund Balances

1	Total net assets or fund balances at beginning of year – Part II, column (a), line 30 (must agree with end-of-year figure reported on prior year's return)	1	2,039,627.
	Enter amount from Part I, line 27a	2	168,560.
	Other increases not included in line 2 (itemize)	3	
4	Add lines 1, 2, and 3	4	2,208,187.
5	Decreases not included in line 2 (itemize)	5	
6	Total net assets or fund balances at end of year (line 4 minus line 5) – Part II, column (b), line 30	6	2,208,187.

Part IV Capital Gains and Losses for Tax on Investment Income

(a) List and describe the kind(s) of property sold (e.g., real estate, 2 story brick warehouse, or common stock, 200 shares MLC Company)	(b) How acquired P — Purchase D — Donation	(c) Date acquired (month, day, year)	(d) Date sold (month, day, year)
See Statement 5			
b			
c			
d			
e			

(e) Gross sales price	(f) Depreciation allowed (or allowable)	(g) Cost or other basis plus expense of sale	(h) Gain or (loss) (e) plus (f) minus (g)
a			
b			
c			
d			
e			

Complete only for assets showing gain in column (h) and owned by the foundation on 12/31/69			(l) Gains (Column (h) gain minus column (k), but not less than 0) or Losses (from column (h))
(i) Fair Market Value as of 12/31/69	(j) Adjusted basis as of 12/31/69	(k) Excess of column (i) over column (j), if any	
a			
b			
c			
d			
e			

2 Capital gain net income or (net capital loss)	[If gain, also enter in Part I, line 7 If (loss), enter -0- in Part I, line 7]	2	45,234.
3 Net short-term capital gain or (loss) as defined in sections 1222(5) and (6)		3	1,456.

Part V Qualification Under Section 4940(e) for Reduced Tax on Net Investment Income

Optional use by domestic private foundations subject to the section 4940(a) tax on net investment income

If section 4940(d)(2) applies, leave this part blank

Was the foundation liable for the section 4942 tax on the distributable amount of any year in the base period? Yes No

If 'Yes,' the foundation does not qualify under section 4940(e) Do not complete this part

1 Enter the appropriate amount in each column for each year, see the instructions before making any entries			
(a) Base period years Calendar year (or tax year beginning in)	(b) Adjusted qualifying distributions	(c) Net value of noncharitable-use assets	(d) Distribution ratio (column (b) divided by column (c))
2010	85,245.	1,804,375.	0.047244
2009	70,398.	1,696,882.	0.041487
2008	76,655.	1,512,205.	0.050691
2007	23,089.	1,471,301.	0.015693
2006	9,241.	560,664.	0.016482

2 Total of line 1, column (d)	2	0.171597
3 Average distribution ratio for the 5-year base period — divide the total on line 2 by 5, or by the number of years the foundation has been in existence if less than 5 years	3	0.034319
4 Enter the net value of noncharitable-use assets for 2011 from Part X, line 5	4	1,899,696.
5 Multiply line 4 by line 3	5	65,196.
6 Enter 1% of net investment income (1% of Part I, line 27b)	6	1,557.
7 Add lines 5 and 6	7	66,753.
8 Enter qualifying distributions from Part XII, line 4	8	86,000.

If line 8 is equal to or greater than line 7, check the box in Part VI, line 1b, and complete that part using a 1% tax rate See the Part VI instructions

Part VI Excise Tax Based on Investment Income (Section 4940(a), 4940(b), 4940(e), or 4948 – see instructions)

a Exempt operating foundations described in section 4940(d)(2), check here <input type="checkbox"/> and enter 'N/A' on line 1 Date of ruling or determination letter _____ (attach copy of letter if necessary – see instrs)		1	1,557.
b Domestic foundations that meet the section 4940(e) requirements in Part V, check here <input checked="" type="checkbox"/> and enter 1% of Part I, line 27b			
c All other domestic foundations enter 2% of line 27b Exempt foreign organizations enter 4% of Part I, line 12, column (b)			
2	Tax under section 511 (domestic section 4947(a)(1) trusts and taxable foundations only. Others enter -0-)	2	0.
3	Add lines 1 and 2	3	1,557.
4	Subtitle A (income) tax (domestic section 4947(a)(1) trusts and taxable foundations only. Others enter -0-)	4	0.
5	Tax based on investment income. Subtract line 4 from line 3. If zero or less, enter -0-	5	1,557.
6 Credits/Payments			
6a	2011 estimated tax pmts and 2010 overpayment credited to 2011	6a	872.
6b	Exempt foreign organizations – tax withheld at source	6b	
6c	Tax paid with application for extension of time to file (Form 8868)	6c	
6d	Backup withholding erroneously withheld	6d	
7	Total credits and payments Add lines 6a through 6d	7	872.
8	Enter any penalty for underpayment of estimated tax Check here <input type="checkbox"/> if Form 2220 is attached	8	
9	Tax due If the total of lines 5 and 8 is more than line 7, enter amount owed	9	685.
10	Overpayment If line 7 is more than the total of lines 5 and 8, enter the amount overpaid	10	
11	Enter the amount of line 10 to be Credited to 2012 estimated tax Refunded	11	

Part VII A Statements Regarding Activities

	Yes	No
1a During the tax year, did the foundation attempt to influence any national, state, or local legislation or did it participate or intervene in any political campaign?		X
b Did it spend more than \$100 during the year (either directly or indirectly) for political purposes (see the instructions for definition)? <i>If the answer is 'Yes' to 1a or 1b, attach a detailed description of the activities and copies of any materials published or distributed by the foundation in connection with the activities</i>		X
c Did the foundation file Form 1120-POL for this year?		X
d Enter the amount (if any) of tax on political expenditures (section 4955) imposed during the year (1) On the foundation ▶ \$ 0. (2) On foundation managers ▶ \$ 0.		
e Enter the reimbursement (if any) paid by the foundation during the year for political expenditure tax imposed on foundation managers ▶ \$ 0.		
2 Has the foundation engaged in any activities that have not previously been reported to the IRS? <i>If 'Yes,' attach a detailed description of the activities</i>		X
3 Has the foundation made any changes, not previously reported to the IRS, in its governing instrument, articles of incorporation, or bylaws, or other similar instruments? <i>If 'Yes,' attach a conformed copy of the changes</i>		X
4a Did the foundation have unrelated business gross income of \$1,000 or more during the year?		X
b If 'Yes,' has it filed a tax return on Form 990-T for this year?		N/A
5 Was there a liquidation, termination, dissolution, or substantial contraction during the year? <i>If 'Yes,' attach the statement required by General Instruction T</i>		X
6 Are the requirements of section 508(e) (relating to sections 4941 through 4945) satisfied either • By language in the governing instrument, or • By state legislation that effectively amends the governing instrument so that no mandatory directions that conflict with the state law remain in the governing instrument?	X	
7 Did the foundation have at least \$5,000 in assets at any time during the year? <i>If 'Yes,' complete Part II, column (c), and Part XV</i>	X	
8a Enter the states to which the foundation reports or with which it is registered (see instructions) <u>TX</u>		
b If the answer is 'Yes' to line 7, has the foundation furnished a copy of Form 990-PF to the Attorney General (or designate) of each state as required by <i>General Instruction G</i> ? <i>If 'No,' attach explanation</i>	X	
9 Is the foundation claiming status as a private operating foundation within the meaning of section 4942(j)(3) or 4942(j)(5) for calendar year 2011 or the taxable year beginning in 2011 (see instructions for Part XIV)? <i>If 'Yes,' complete Part XIV</i>		X
10 Did any persons become substantial contributors during the tax year? <i>If 'Yes,' attach a schedule listing their names and addresses</i>		X

Part VII-B: Statements Regarding Activities for Which Form 4720 May Be Required (continued)

a During the year did the foundation pay or incur any amount to:

(1) Carry on propaganda, or otherwise attempt to influence legislation (section 4945(e))? Yes No

(2) Influence the outcome of any specific public election (see section 4955), or to carry on, directly or indirectly, any voter registration drive? Yes No

(3) Provide a grant to an individual for travel, study, or other similar purposes? Yes No

(4) Provide a grant to an organization other than a charitable, etc., organization described in section 509(a)(1), (2), or (3), or section 4940(d)(2)? (see instructions) Yes No

(5) Provide for any purpose other than religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals? Yes No

b If any answer is 'Yes' to 5a(1)-(5), did any of the transactions fail to qualify under the exceptions described in Regulations section 53.4945 or in a current notice regarding disaster assistance (see instructions)? Yes No
 Organizations relying on a current notice regarding disaster assistance check here

c If the answer is 'Yes' to question 5a(4), does the foundation claim exemption from the tax because it maintained expenditure responsibility for the grant? Yes No
 If 'Yes,' attach the statement required by Regulations section 53.4945-5(d) N/A

6a Did the foundation, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? Yes No

6b Did the foundation, during the year, pay premiums, directly or indirectly, on a personal benefit contract? Yes No
 If 'Yes' to 6b, file Form 8870

7a At any time during the tax year, was the foundation a party to a prohibited tax shelter transaction? Yes No

b If 'Yes,' did the foundation receive any proceeds or have any net income attributable to the transaction? Yes No N/A

Part VIII: Information About Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors

1 List all officers, directors, trustees, foundation managers and their compensation (see instructions).

(a) Name and address	(b) Title, and average hours per week devoted to position	(c) Compensation (If not paid, enter -0-)	(d) Contributions to employee benefit plans and deferred compensation	(e) Expense account, other allowances
JACQUELYN GRAGG P.O. BOX 678 PALESTINE, TX 75802-0678	Pres/Dir 1.00	0.	0.	0.
CODY D. BRISTOW P.O. BOX 678 PALESTINE, TX 75802-0678	Director 1.00	0.	0.	0.
MICHAEL L. GRAHAM P.O. BOX 678 PALESTINE, TX 75802-0678	Dir/Sec 1.00	0.	0.	0.

2 Compensation of five highest-paid employees (other than those included on line 1 - see instructions). If none, enter 'NONE.'

(a) Name and address of each employee paid more than \$50,000	(b) Title, and average hours per week devoted to position	(c) Compensation	(d) Contributions to employee benefit plans and deferred compensation	(e) Expense account, other allowances
None				

Total number of other employees paid over \$50,000 0

Part VIII Information About Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors (continued)

Five highest-paid independent contractors for professional services (see instructions). If none, enter 'NONE.'

(a) Name and address of each person paid more than \$50,000	(b) Type of service	(c) Compensation
None		

Total number of others receiving over \$50,000 for professional services		0

Part IX-A Summary of Direct Charitable Activities

List the foundation's four largest direct charitable activities during the tax year. Include relevant statistical information such as the number of organizations and other beneficiaries served, conferences convened, research papers produced, etc.

	Expenses
1 N/A	

3	

4	

Part IX-B Summary of Program-Related Investments (see instructions)

Describe the two largest program-related investments made by the foundation during the tax year on lines 1 and 2

	Amount
1 N/A	

2	

All other program-related investments See instructions	
Total. Add lines 1 through 3	0.

BAA

Part X Minimum Investment Return (All domestic foundations must complete this part. Foreign foundations see instructions.)

Fair market value of assets not used (or held for use) directly in carrying out charitable, etc., purposes		
a Average monthly fair market value of securities	1 a	1,819,991.
b Average of monthly cash balances	1 b	108,634.
c Fair market value of all other assets (see instructions)	1 c	
d Total (add lines 1a, b, and c)	1 d	1,928,625.
e Reduction claimed for blockage or other factors reported on lines 1a and 1c (attach detailed explanation)	1 e	0.
2 Acquisition indebtedness applicable to line 1 assets	2	0.
3 Subtract line 2 from line 1d	3	1,928,625.
4 Cash deemed held for charitable activities Enter 1-1/2% of line 3 (for greater amount, see instructions)	4	28,929.
5 Net value of noncharitable-use assets. Subtract line 4 from line 3 Enter here and on Part V, line 4	5	1,899,696.
6 Minimum investment return. Enter 5% of line 5	6	94,985.

Part XI Distributable Amount (see instructions) (Section 4942(j)(3) and (j)(5) private operating foundations and certain foreign organizations check here and do not complete this part.)

1 Minimum investment return from Part X, line 6	1	94,985.
2 a Tax on investment income for 2011 from Part VI, line 5	2 a	1,557.
b Income tax for 2011 (This does not include the tax from Part VI)	2 b	
c Add lines 2a and 2b	2 c	1,557.
3 Distributable amount before adjustments Subtract line 2c from line 1	3	93,428.
4 Recoveries of amounts treated as qualifying distributions	4	
5 Add lines 3 and 4	5	93,428.
6 Deduction from distributable amount (see instructions)	6	
7 Distributable amount as adjusted Subtract line 6 from line 5 Enter here and on Part XIII, line 1	7	93,428.

Part XII Qualifying Distributions (see instructions)

1 Amounts paid (including administrative expenses) to accomplish charitable, etc., purposes		
a Expenses, contributions, gifts, etc – total from Part I, column (d), line 26	1 a	86,000.
b Program-related investments – total from Part IX-B	1 b	
2 Amounts paid to acquire assets used (or held for use) directly in carrying out charitable, etc., purposes	2	
3 Amounts set aside for specific charitable projects that satisfy the		
a Suitability test (prior IRS approval required)	3 a	
b Cash distribution test (attach the required schedule)	3 b	
4 Qualifying distributions. Add lines 1a through 3b Enter here and on Part V, line 8, and Part XIII, line 4	4	86,000.
5 Foundations that qualify under section 4940(e) for the reduced rate of tax on net investment income Enter 1% of Part I, line 27b (see instructions)	5	1,557.
6 Adjusted qualifying distributions. Subtract line 5 from line 4	6	84,443.

Note. The amount on line 6 will be used in Part V, column (b), in subsequent years when calculating whether the foundation qualifies for the section 4940(e) reduction of tax in those years

Part XIII Undistributed Income (see instructions)

	(a) Corpus	(b) Years prior to 2010	(c) 2010	(d) 2011
1 Distributable amount for 2011 from Part XI, line 7				93,428.
2 Undistributed income, if any, as of the end of 2011				
a Enter amount for 2010 only			83,850.	
b Total for prior years 20__, 20__, 20__		0.		
3 Excess distributions carryover, if any, to 2011				
a From 2006				
b From 2007				
c From 2008				
d From 2009				
e From 2010				
f Total of lines 3a through e	0.			
4 Qualifying distributions for 2011 from Part XII, line 4 ▶ \$ 86,000.				
a Applied to 2010, but not more than line 2a			83,850.	
b Applied to undistributed income of prior years (Election required – see instructions)		0.		
c Treated as distributions out of corpus (Election required – see instructions)	0.			
d Applied to 2011 distributable amount				2,150.
e Remaining amount distributed out of corpus	0.			
5 Excess distributions carryover applied to 2011 (If an amount appears in column (d), the same amount must be shown in column (a))	0.			0.
6 Enter the net total of each column as indicated below:				
a Corpus Add lines 3f, 4c, and 4e Subtract line 5	0.			
b Prior years' undistributed income Subtract line 4b from line 2b		0.		
c Enter the amount of prior years' undistributed income for which a notice of deficiency has been issued, or on which the section 4942(a) tax has been previously assessed		0.		
d Subtract line 6c from line 6b Taxable amount – see instructions		0.		
e Undistributed income for 2010 Subtract line 4a from line 2a Taxable amount – see instructions			0.	
f Undistributed income for 2011 Subtract lines 4d and 5 from line 1 This amount must be distributed in 2012				91,278.
7 Amounts treated as distributions out of corpus to satisfy requirements imposed by section 170(b)(1)(F) or 4942(g)(3) (see instructions)	0.			
8 Excess distributions carryover from 2006 not applied on line 5 or line 7 (see instructions)	0.			
9 Excess distributions carryover to 2012. Subtract lines 7 and 8 from line 6a	0.			
10 Analysis of line 9				
a Excess from 2007				
b Excess from 2008				
c Excess from 2009				
d Excess from 2010				
e Excess from 2011				

Part XIV Private Operating Foundations (see instructions and Part VII-A, question 9) N/A

a If the foundation has received a ruling or determination letter that it is a private operating foundation, and the ruling is effective for 2011, enter the date of the ruling ▶

b Check box to indicate whether the foundation is a private operating foundation described in section 4942(j)(3) or 4942(j)(5)

	Tax year				(e) Total
	(a) 2011	(b) 2010	(c) 2009	(d) 2008	
2a Enter the lesser of the adjusted net income from Part I or the minimum investment return from Part X for each year listed					
b 85% of line 2a					
c Qualifying distributions from Part XII, line 4 for each year listed					
d Amounts included in line 2c not used directly for active conduct of exempt activities					
e Qualifying distributions made directly for active conduct of exempt activities Subtract line 2d from line 2c					
3 Complete 3a, b, or c for the alternative test relied upon					
a 'Assets' alternative test – enter					
(1) Value of all assets					
(2) Value of assets qualifying under section 4942(j)(3)(B)(i)					
b 'Endowment' alternative test – enter 2/3 of minimum investment return shown in Part X, line 6 for each year listed					
c 'Support' alternative test – enter					
(1) Total support other than gross investment income (interest, dividends, rents, payments on securities loans (section 512(a)(5)), or royalties)					
(2) Support from general public and 5 or more exempt organizations as provided in section 4942(j)(3)(B)(iii)					
(3) Largest amount of support from an exempt organization					
(4) Gross investment income					

Part XV Supplementary Information (Complete this part only if the organization had \$5,000 or more in assets at any time during the year – see instructions.)

1 Information Regarding Foundation Managers:

a List any managers of the foundation who have contributed more than 2% of the total contributions received by the foundation before the close of any tax year (but only if they have contributed more than \$5,000) (See section 507(d)(2))
 JACQUELYN GRAGG

b List any managers of the foundation who own 10% or more of the stock of a corporation (or an equally large portion of the ownership of a partnership or other entity) of which the foundation has a 10% or greater interest
 None

2 Information Regarding Contribution, Grant, Gift, Loan, Scholarship, etc, Programs:

Check here if the foundation only makes contributions to preselected charitable organizations and does not accept unsolicited requests for funds. If the foundation makes gifts, grants, etc. (see instructions) to individuals or organizations under other conditions, complete items 2a, b, c, and d

a The name, address, and telephone number of the person to whom applications should be addressed

b The form in which applications should be submitted and information and materials they should include

c Any submission deadlines.

d Any restrictions or limitations on awards, such as by geographical areas, charitable fields, kinds of institutions, or other factors

Part XV Supplementary Information (continued)

2 Grants and Contributions Paid During the Year or Approved for Future Payment

Recipient Name and address (home or business)	If recipient is an individual, show any relationship to any foundation manager or substantial contributor	Foundation status of recipient	Purpose of grant or contribution	Amount
a Paid during the year See Statement 6				
Total				▶ 3a 85,000.
b Approved for future payment				
Total				▶ 3b

Schedule of Contributors

▶ Attach to Form 990, Form 990-EZ, or Form 990-PF

2011

Name of the organization THE GRAGG FOUNDATION	Employer identification number 02-0762912
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Organization type (check one)

Filers of:

Form 990 or 990-EZ

Section:

- 501(c)(____) (enter number) organization
- 4947(a)(1) nonexempt charitable trust **not** treated as a private foundation
- 527 political organization

Form 990-PF

- 501(c)(3) exempt private foundation
- 4947(a)(1) nonexempt charitable trust treated as a private foundation
- 501(c)(3) taxable private foundation

Check if your organization is covered by the **General Rule** or a **Special Rule**

Note. Only a section 501(c)(7), (8), or (10) organization can check boxes for both the General Rule and a Special Rule. See instructions.

General Rule

- For an organization filing Form 990, 990-EZ, or 990-PF that received, during the year, \$5,000 or more (in money or property) from any one contributor. (Complete Parts I and II.)

Special Rules

- For a section 501(c)(3) organization filing Form 990 or 990-EZ that met the 33-1/3% support test of the regulations under sections 509(a)(1) and 170(b)(1)(A)(vi), and received from any one contributor, during the year, a contribution of the greater of (1) \$5,000 or (2) 2% of the amount on (i) Form 990, Part VIII, line 1h or (ii) Form 990-EZ, line 1. Complete Parts I and II.
- For a section 501(c)(7), (8), or (10) organization filing Form 990 or 990-EZ that received from any one contributor, during the year, total contributions of more than \$1,000 for use *exclusively* for religious, charitable, scientific, literary, or educational purposes, or the prevention of cruelty to children or animals. Complete Parts I, II, and III.
- For a section 501(c)(7), (8), or (10) organization filing Form 990 or 990-EZ that received from any one contributor, during the year, contributions for use *exclusively* for religious, charitable, etc. purposes, but these contributions did not total to more than \$1,000. If this box is checked, enter here the total contributions that were received during the year for an *exclusively* religious, charitable, etc. purpose. Do not complete any of the parts unless the **General Rule** applies to this organization because it received nonexclusively religious, charitable, etc. contributions of \$5,000 or more during the year. ▶ \$ _____

Caution: An organization that is not covered by the General Rule and/or the Special Rules does not file Schedule B (Form 990, 990-EZ, or 990-PF) but it **must** answer 'No' on Part IV, line 2, of its Form 990, or check the box on line H of its Form 990-EZ or on Part I, line 2, of its Form 990-PF, to certify that it does not meet the filing requirements of Schedule B (Form 990, 990-EZ, or 990-PF).

BAA For Paperwork Reduction Act Notice, see the Instructions for Form 990, 990-EZ, or 990-PF.

Schedule B (Form 990, 990-EZ, or 990-PF) (2011)

Name of organization

Employer identification number

THE GRAGG FOUNDATION

02-0762912

Part III **Contributors** (see instructions) Use duplicate copies of Part I if additional space is needed

(a) Number	(b) Name, address, and ZIP + 4	(c) Total contributions	(d) Type of contribution
1	JACQUELYN GRAGG ----- P.O. BOX 678 ----- PALESTINE, TX 75802-0678 -----	\$ 100,000. -----	Person <input checked="" type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
-----	-----	\$ ----- -----	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
-----	-----	\$ ----- -----	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
-----	-----	\$ ----- -----	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
-----	-----	\$ ----- -----	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)
-----	-----	\$ ----- -----	Person <input type="checkbox"/> Payroll <input type="checkbox"/> Noncash <input type="checkbox"/> (Complete Part II if there is a noncash contribution)

Name of organization

THE GRAGG FOUNDATION

Employer identification number

02-0762912

Part III Noncash Property (see instructions) Use duplicate copies of Part II if additional space is needed

(a) No. from Part I	(b) Description of noncash property given	(c) FMV (or estimate) (see instructions)	(d) Date received
	N/A		
		\$	
		\$	
		\$	
		\$	
		\$	
		\$	
		\$	
		\$	
		\$	

Name of organization
THE GRAGG FOUNDATION

Employer identification number
 02-0762912

Part III Exclusively religious, charitable, etc., individual contributions to section 501(c)(7), (8), or (10) organizations that total more than \$1,000 for the year. Complete cols (a) through (e) and the following line entry
 For organizations completing Part III, enter total of exclusively religious, charitable, etc., contributions of \$1,000 or less for the year (Enter this information once See instructions) ▶ \$ _____ N/A
 Use duplicate copies of Part III if additional space is needed

(a) No. from Part I	(b) Purpose of gift	(c) Use of gift	(d) Description of how gift is held
	N/A		
(e) Transfer of gift			
Transferee's name, address, and ZIP + 4		Relationship of transferor to transferee	
(a) No. from Part I	(b) Purpose of gift	(c) Use of gift	(d) Description of how gift is held
(e) Transfer of gift			
Transferee's name, address, and ZIP + 4		Relationship of transferor to transferee	
(a) No. from Part I	(b) Purpose of gift	(c) Use of gift	(d) Description of how gift is held
(e) Transfer of gift			
Transferee's name, address, and ZIP + 4		Relationship of transferor to transferee	
(a) No. from Part I	(b) Purpose of gift	(c) Use of gift	(d) Description of how gift is held
(e) Transfer of gift			
Transferee's name, address, and ZIP + 4		Relationship of transferor to transferee	

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Statement 1
Form 990-PF, Part I, Line 11
Other Income

	(a) Revenue per Books	(b) Net Investment Income	(c) Adjusted Net Income
Other Investment Income	\$ 314.		
Total	\$ 314.	\$ 0.	\$ 0.

Statement 2
Form 990-PF, Part I, Line 16b
Accounting Fees

	(a) Expenses per Books	(b) Net Investment Income	(c) Adjusted Net Income	(d) Charitable Purposes
TAX PREP FEE/ACCT FEES	\$ 1,000.			\$ 1,000.
Total	\$ 1,000.	\$ 0.		\$ 1,000.

Statement 3
Form 990-PF, Part I, Line 18
Taxes

	(a) Expenses per Books	(b) Net Investment Income	(c) Adjusted Net Income	(d) Charitable Purposes
CAP WRLD GRWTH&INC	\$ 50.	\$ 50.		
EUROPACIFIC GRWTH	34.	34.		
EXCISE TAX	1,097.			
NEW PERSPECTIVE	16.	16.		
SMALLCAP WORLD	10.	10.		
TEMPLETON GLBL BD	16.	16.		
Total	\$ 1,223.	\$ 126.		\$ 0.

Statement 4
Form 990-PF, Part II, Line 15
Other Assets

	Book Value	Fair Market Value
DIVIDEND RECEIVALBE	\$ 80.	
Total	\$ 80.	\$ 0.

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Statement 5
Form 990-PF, Part IV, Line 1
Capital Gains and Losses for Tax on Investment Income

Item	(a) Description	(b) How Acquired	(c) Date Acquired	(d) Date Sold
1	25000 KANSAS ST 4.05% 11/01/17	Purchased	4/26/2011	8/03/2011
2	25000 ALLERGAN SR NOTES 5.75% 4/01/16	Purchased	8/05/2009	8/03/2011
3	30000 ALLSTATE MED NOTES 5.375 4/30/13	Purchased	4/20/2009	8/03/2011
4	15000 AMGEN SR NOTES 06/01/17	Purchased	9/22/2009	8/03/2011
5	15000 APACHE CORP 5.625% 01/15/17	Purchased	8/05/2009	8/03/2011
6	35000 AT&T CORP 6.5% 03/15/13	Purchased	5/12/2009	8/03/2011
7	25000 AT&T INC 5.5% 02/01/18	Purchased	8/05/2009	8/03/2011
8	25000 AVON PROD NOTES 5.625% 03/01/14	Purchased	4/20/2009	8/03/2011
9	20000 BOA CORP SR NOTES 5.375% 09/11/12	Purchased	5/11/2009	8/03/2011
10	30000 BONY SUB NOTES 6.375% 04/01/12	Purchased	5/01/2009	8/03/2011
11	50000 BERKSHIRE HATHAWAY 5.4%	Purchased	9/21/2009	8/03/2011
12	97000 CAPITAL ONE 4.5% 09/06/11	Purchased	8/25/2008	9/06/2011
13	20000 CATEPILLAR MED TERM NOTE 6.2% 09/30/13	Purchased	5/27/2009	8/03/2011
14	20000 CATEPILLAR FIN'L UNSEC 6.125% 02/17/14	Purchased	4/15/2009	8/03/2011
15	97000 DISCOVER BANK CD4.65% 08/29/11	Purchased	8/22/2008	8/30/2011
16	96000 FIRST BANK CD 4.5% 09/06/11	Purchased	8/25/2008	9/06/2011
17	40000 GENERAL ELEC MED TERM 5.5% 6/4/14	Purchased	4/13/2009	8/03/2011
18	30000 GENERAL ELEC MED TERM 4.375% 11/21/11	Purchased	4/13/2009	11/21/2011
19	30000 GOLDMAN SACHS 5.25% 04/01/13	Purchased	4/15/2009	8/03/2011
20	30000 GOLDMAN SACHS 5.3% 02/14/12	Purchased	5/07/2009	8/03/2011
21	20000 HONEYWELL INT'L 5.3% 09/01/08	Purchased	9/21/2009	8/03/2011
22	20000 JOHN DEER SR NOTES 5% 4/15/13	Purchased	4/17/2009	8/03/2011
23	25000 JOHN DEER CAP 5.% 3/17/14	Purchased	6/08/2009	8/03/2011
24	25000 JOHN HANCOCK LIFE 4.850% 11/15/12	Purchased	5/27/2009	8/03/2011
25	11000 JOHN HANCOCK LIFE 5.25% 12/15/15	Purchased	9/22/2009	8/03/2011
26	30000 JPMORGAN CHASE MED TERM 5.375% 01/15/14	Purchased	4/13/2009	8/03/2011
27	20000 JPMORGAN CHASE UNSEC 4.65% 06/01/14	Purchased	6/03/2009	8/03/2011
28	20000 LOWES 6.1% 09/15/17	Purchased	9/22/2009	8/03/2011
29	20000 MCDONALDS MED TERM 5.35% 3/1/18	Purchased	9/21/2009	8/03/2011
30	25000 METLIFE 5.5% 06/15/14	Purchased	9/16/2009	8/03/2011
31	99000 MORGAN STANLEY CD 4.45% 11/28/11	Purchased	11/25/2008	11/28/2011
32	30000 MORGAN STANLEY/DEAN WITT 6.6% 04/1/12	Purchased	5/08/2009	8/03/2011
33	20000 NUCOR CORP 5.75% 12/01/17	Purchased	9/16/2009	8/03/2011
34	20000 PEPSICO 4.5% 1/15/20	Purchased	2/03/2010	8/03/2011
35	20000 PHILIP MORRIS INT'L 5.65% 05/16/18	Purchased	9/21/2009	8/03/2011
36	20000 PRINCIPAL LIFE MED TERM 5.15% 06/17/11	Purchased	4/13/2009	6/17/2011
37	10000 TARGET CORP 4.875% 05/15/18	Purchased	2/03/2010	8/03/2011
38	15000 UPS SR NOTES 5.5% 01/15/18	Purchased	9/22/2009	8/03/2011
39	25000 VERIZON COMM 5.5% 04/01/17	Purchased	8/05/2009	8/03/2011
40	20000 VERIZON COMM 5.5% 02/15/18	Purchased	2/03/2010	8/03/2011
41	10000 WALT DISNEY MED TERM 5.875% 12/15/17	Purchased	9/22/2009	8/03/2011
42	20000 WELLS FARGO CO 5.25% 10/23/12	Purchased	4/13/2009	8/03/2011
43	20000 WELLS FARGO CO 5.625% 12/11/17	Purchased	2/03/2010	8/03/2011

Item	(e) Gross Sales	(f) Deprec. Allowed	(g) Cost Basis	(h) Gain (Loss)	(i) FMV 12/31/69	(j) Adj. Bas. 12/31/69	(k) Excess (i) - (j)	(l) Gain (Loss)
1	26,531.		25,075.	1,456.				\$ 1,456.
2	28,845.		26,015.	2,830.				2,830.

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Statement 5 (continued)
Form 990-PF, Part IV, Line 1
Capital Gains and Losses for Tax on Investment Income

Item	(e) Gross Sales	(f) Deprec. Allowed	(g) Cost Basis	(h) Gain (Loss)	(i) FMV 12/31/69	(j) Adj. Bas. 12/31/69	(k) Excess (i) - (j)	(l) Gain (Loss)
3	32,245.		30,122.	2,123.				\$ 2,123.
4	17,620.		16,820.	800.				800.
5	17,485.		16,099.	1,386.				1,386.
6	37,620.		37,621.	-1.				-1.
7	28,620.		26,725.	1,895.				1,895.
8	27,433.		26,349.	1,084.				1,084.
9	20,795.		19,865.	930.				930.
10	31,008.		31,662.	-654.				-654.
11	56,595.		54,080.	2,515.				2,515.
12	97,000.		97,000.	0.				0.
13	22,145.		21,300.	845.				845.
14	22,420.		20,267.	2,153.				2,153.
15	97,000.		97,000.	0.				0.
16	96,000.		96,000.	0.				0.
17	44,095.		40,269.	3,826.				3,826.
18	30,000.		30,260.	-260.				-260.
19	31,615.		30,604.	1,011.				1,011.
20	30,633.		30,614.	19.				19.
21	22,795.		21,805.	990.				990.
22	21,095.		20,000.	1,095.				1,095.
23	26,901.		25,166.	1,735.				1,735.
24	25,933.		25,525.	408.				408.
25	12,068.		11,584.	484.				484.
26	32,665.		30,902.	1,763.				1,763.
27	21,495.		20,225.	1,270.				1,270.
28	23,795.		22,771.	1,024.				1,024.
29	23,235.		21,855.	1,380.				1,380.
30	27,558.		26,569.	989.				989.
31	99,000.		99,000.	0.				0.
32	31,075.		31,436.	-361.				-361.
33	23,395.		22,027.	1,368.				1,368.
34	21,995.		20,405.	1,590.				1,590.
35	23,195.		21,581.	1,614.				1,614.
36	20,000.		20,051.	-51.				-51.
37	11,075.		10,470.	605.				605.
38	17,395.		16,580.	815.				815.
39	28,620.		26,614.	2,006.				2,006.
40	22,995.		21,404.	1,591.				1,591.
41	11,972.		11,215.	757.				757.
42	20,995.		20,081.	914.				914.
43	22,695.		21,405.	1,290.				1,290.
								Total \$ <u>45,234.</u>

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Statement 6
Form 990-PF, Part XV, Line 3a
Recipient Paid During the Year

Name and Address	Donee Relationship	Found- ation Status	Purpose of Grant	Amount
OAKWOOD HIGH SCHOOL 631 N. HOLLY OAKWOOD, TX 75855	N/A	N/A	SCHOLARSHIPS	\$ 10,000.
CAYUGA HIGH SCHOOL P.O. BOX 427 CAYUGA, TX 75832	N/A	N/A	SCHOLARSHIPS	10,000.
PALESTINE HIGH SCHOOL 1600 SOUTH LOOP 256 PALESTINE, TX 75801	N/A	N/A	SCHOLARSHIPS	10,000.
WESTWOOD HIGH SCHOOL 1820 PANTHER BLVD PALESTINE, TX 75803	N/A	N/A	SCHOLARSHIPS	10,000.
TEXAS AREA FUND FOUNDATION, INC P.O. BOX 770 PALESTINE, TX 75802	N/A	501C3	GENERAL & UNRESTRICTED	1,500.
PALESTINE JUNIOR SERVICE LEAGUE P.O. BOX 1423 PALESTINE, TX 75802	N/A	501C3	GENERAL & UNRESTRICTED	5,000.
LIVING ALTERNATIVE PREGNANCY CENTER P.O. BOX 2656 PALESTINE, TX 75802	N/A	501C3	GENERAL & UNRESTRICTED	2,000.
THE STOCKPOT OF PALESTINE 410 AVENUE A. PALESTINE, TX 75801	N/A	501C3	GENERAL & UNRESTRICTED	2,000.
ST. VINCENT DE PAUL SOCIETY 503 N. QUEEN ST. PALESTINE, TX 75801	N/A	501C3	GENERAL & UNRESTRICTED	7,000
ANDERSON/CHEROKEE CO. CRISIS CENTER 700 EAST CHEROKEE JACKSONVILLE, TX 75766	N/A	501C3	GENERAL & UNRESTRICTED	2,000.
LAPOYNER HIGH SCHOOL 13155 HIGHWAY 175 EAST LARUE, TX 75770	N/A	N/A	SCHOLARSHIPS	10,000.
NECHES HIGH SCHOOL P.O. BOX 310 NECHES, TX 75779	N/A	N/A	SCHOLARSHIPS	10,000.

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Statement 6 (continued)
Form 990-PF, Part XV, Line 3a
Recipient Paid During the Year

<u>Name and Address</u>	<u>Donee Relationship</u>	<u>Found- ation Status</u>	<u>Purpose of Grant</u>	<u>Amount</u>
ANDERSON CO. CHAMPIONS FOR CHILDREN, INC PO BOX 241 PALESTINE, TX 75802	N/A	501C3	GENERAL & UNRESTRICTED	\$ 1,000.
PALESTINE COMMUNITY THEATRE, INC 1917 CROCKETT RD PALESTINE, TX 75801	N/A	501C3	GENERAL & UNRESTRICTED	2,000.
MEALS ON WHEELS OF PALESTINE, INC PO BOX 1365 PALESTINE, TX 75802	N/A	501C3	GENERAL & UNRESTRICTED	1,000.
FRIENDS OF HOWARD HOUSE MUSEUM 412 S. SYCAMORE PALESTINE, TX 75801	N/A	501C3	GENERAL & UNRESTRICTED	1,500.
Total \$				<u>85,000.</u>

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Balance Sheet
Corporate stock (Form 990-PF)[O]

AMER BALANCED FD CL A	\$	28,197.
CAPITAL INCOME BLDR CL A		33,439.
CAPITAL WORLD GRWTH & INC		18,769.
EUROPACIFIC GRWTH FD		12,378.
FRANKLIN INC FD CL C		36,960.
FRANKLIN INC FUND CL A		1,208,897.
FRANKLIN STRATEGIC INCOME CL C		57,376.
GRWTH FUND AMERICA CL A		26,776.
INC FUND AMER INC CL A		28,372.
INVST CO AMERICA CL A		55,334.
NEW PERSPECTIVE FD A		12,168.
VIRTUS OPPORT MULTI SECTOR ST BOND		20,584.
SMALLCAP WORLD FD A		11,208.
TEMPLETON GLOBAL CL A		40,000.
TEMPLETON GLOBAL CL C		15,000.
WASH MUTL INVS FD CL A		51,059.
Total	\$	<u>1,656,517.</u>

Balance Sheet
Corporate bonds (Form 990-PF)[O]

GOLDMAN SACHS GRP SR NOTES	\$	20,482.
JPMORGAN CHASE SUBORD NOTES		10,955.
PRUDENTIAL FIN'L INC NOTES		22,105.
GENERAL ELECT CAP COROP MED TERM		15,392.
WELLS FARGO SUBORD GLOBAL NOTES		21,961.
GOLDMAN SACHS GRP SUB NOTES		10,920.
GOLDMAN SACHS SR NOTES		21,885.
BOA CORP SR NOTES		10,932.
JPMORGAN CHASE SR NOTES		21,883.
BOEING CAP CORP SR NOTES		20,315.
EOG RESOURCES SR UNSEC		20,005.
PRUDENTIAL FIN'L INC MED TERM NOTES		10,004.
AUSTIN TX CMNTY CLLG REV FRDG TAX		20,455.
LUBBOCK TX SER B BUILD AMER BDS		10,268.
NORTH TX MUN DIST WTR SYS TAX CPN		10,288.
Total	\$	<u>247,850.</u>