McGladrey & Pullen
Certified Public Accountants

Communities Foundation of Texas

Financial Report
June 30, 2010

Contents

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Trustees
Communities Foundation of Texas
Dallas, Texas

We have audited the accompanying consolidated statements of financial position of Communities Foundation of Texas (Foundation) as of June 30, 2010 and 2009, and the related consolidated 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Communities Foundation of Texas as of June 30, 2010 and 2009, 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.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The summarized consolidating financial statement information in Note 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Dallas, Texas
October 15, 2010

Communities Foundation of Texas

Consolidated Statements of Financial Position
June 30, 2010 and 2009
(In thousands)

ASSETS	**2010**	2009
Cash and cash equivalents	**$ 142,146**	$ 143,533
Investments (Note 2)	**478,117**	439,037
Interest, dividends and other receivables	**3,352**	3,858
Contributions receivable (Note 5)	**19,985**	6,123
Real estate held for investment	**31,799**	28,447
Limited partnership interests	**9,992**	10,031
Cash surrender value of life insurance policies	**148**	135
Headquarters and equipment, net (Note 3)	**18,895**	18,876
Other assets	**622**	668
Total assets	**$ 705,056**	$ 650,708
LIABILITIES AND NET ASSETS		
Accrued liabilities and other payables (Note 8)	**$ 2,435**	$ 3,786
Grants payable (Note 4)	**44,078**	35,144
Funds held for others (Note 6)	**30,606**	6,269
Liabilities associated with split-interest agreements (Note 5)	**1,907**	1,973
Liabilities associated with gift annuities (Note 5)	**250**	-
Total liabilities	**79,276**	47,172
Net assets: (Note 7)		
Unrestricted	**504,858**	472,029
Unrestricted Board designated endowments	**17,771**	16,218
Temporarily restricted	**95,960**	108,235
Permanently restricted	**7,191**	7,054
Total net assets	**625,780**	603,536
Total liabilities and net assets	**$ 705,056**	$ 650,708

See Notes to Consolidated Financial Statements.

Communities Foundation of Texas

Consolidated Statements of Activities
Years Ended June 30, 2010 and 2009
(In thousands)

	2010	2009
Changes in unrestricted net assets:		
Revenues and gains:		
Contributions	**$ 50,665**	$ 36,046
Investment income (Note 2)	**13,755**	17,310
Net realized loss on sales of investments	**(4,992)**	(48,897)
Net unrealized gain (loss) on investments	**41,913**	(38,689)
Change in value of split-interest agreements	**(134)**	293
Other	**4,422**	2,986
	105,629	(30,951)
Interfund transfers	**(634)**	6,183
Net assets released from restrictions	**27,957**	30,678
Net unrestricted revenues	**132,952**	5,910
Grants and expenses:		
Programs:		
Grants	**76,050**	73,454
Other	**7,792**	9,416
W.W. Caruth, Jr. Foundation:		
Medallion Center	**1,624**	1,659
Other	**2,774**	701
Supporting activities:		
Administrative expenses	**4,775**	5,432
Development	**2,095**	1,303
Fund management	**3,460**	4,051
	98,570	96,016
Increase (decrease) in unrestricted net assets	**34,382**	(90,106)
Changes in temporarily restricted net assets:		
Contributions	**22,694**	31,232
Investment income (Note 2)	**1,188**	2,415
Net realized loss on sales of investments	**(1,857)**	(2,875)
Net unrealized gain (loss) on investments	**7,113**	(11,065)
Other	**31**	130
Redesignation of assets by donors	**(14,121)**	-
Interfund transfers	**634**	(6,185)
Net assets released from restrictions	**(27,957)**	(30,678)
Decrease in temporarily restricted net assets before cumulative effect of adoption of FSP 117-1	**(12,275)**	(17,026)
Cumulative effect of adoption of FSP 117-1	**-**	83,576
(Decrease) increase in temporarily restricted net assets	**(12,275)**	66,550
Changes in permanently restricted net assets:		
Contributions	**137**	156
Interfund transfers	**-**	2
Increase in permanently restricted net assets before cumulative effect of adoption of FSP 117-1	**137**	158
Cumulative effect of adoption of FSP 117-1		(83,576)
Increase (decrease) in permanently restricted net assets	**137**	(83,418)
Change in net assets	**22,244**	(106,974)
Net assets, beginning of year	**603,536**	710,510
Net assets, end of year	**$ 625,780**	$ 603,536

See Notes to Consolidated Financial Statements.

Communities Foundation of Texas

Consolidated Statements of Cash Flows
Years Ended June 30, 2010 and 2009
(In thousands)

	2010	2009
Cash flows from operating activities:		
Change in net assets	**$ 22,244**	$ (106,974)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**1,794**	1,906
Amortization of license agreements	**43**	95
Net unrealized (gain) loss on investments	**(49,026)**	49,754
Net realized gain on sales real estate and equipment	**(2)**	-
Net realized loss on sales of investments	**6,849**	51,772
Impairment on limited partnership interest	**-**	192
Increase in grants payable	**8,934**	342
(Increase) decrease in contributions, interest, dividends and other receivables	**(13,356)**	3,156
(Increase) decrease in cash surrender value of life insurance policies	**(13)**	368
Net change in other assets and other liabilities	**(1,348)**	3,176
Increase (decrease) in liabilities associated with split-interest agreements	**178**	(371)
Increase in liabilities associated with funds held for others	**24,337**	654
Permanently restricted contributions	**(137)**	(156)
Noncash grants	**78**	11,124
Noncash contributions	**(2,781)**	(12,785)
Net cash provided by (used in) operating activities	**(2,206)**	2,253
Cash flows from investing activities:		
Purchases of investments	**(272,264)**	(374,168)
Proceeds from the sale of investments	**277,887**	375,839
Proceeds from sale of real estate held for investment	**4**	1,350
Additions to real estate held for investment	**(4,442)**	(1,134)
Headquarters and equipment purchases	**(803)**	(202)
Other limited partnership activity, net	**300**	(2,581)
Net cash provided by (used in) investing activities	**682**	(896)
Cash flows from financing activities:		
Contributions received with permanent restrictions	**137**	156
Net cash provided by financing activities	**137**	156
Net (decrease) increase in cash and cash equivalents	**(1,387)**	1,513
Cash and cash equivalents, beginning of year	**143,533**	142,020
Cash and cash equivalents, end of year	**$ 142,146**	$ 143,533
Supplemental data:		
Noncash investing and financing activities:		
Contributions of securities	**$ 2,781**	$ 5,334
Contribution of limited partnership interest	**$ -**	$ 7,451
Grant of securities	**$ -**	$ 348
Grant of life insurance policy	**$ -**	$ 10,520
Grant of real estate	**$ 78**	$ 256

See Notes to Consolidated Financial Statements.

Note 1. Purpose of Foundation and Summary of Significant Accounting Policies

General Purpose and Activities

Communities Foundation of Texas (Foundation) is a nonprofit Texas corporation with no capital stock and is classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) and as a nonprivate foundation under Section 509(a)(1) of the Internal Revenue Code of 1986. The Foundation administers more than 800 individual donor advised, designated and endowment funds, each established with an instrument of gift. The Foundation is committed to promoting the well-being of mankind and to serving the general charitable, educational and scientific needs primarily for inhabitants of Texas and adjoining states through charitable grants at the discretion of the Board of Trustees.

In addition, the Foundation administers the Texas High School Project fund, a significant program which provides grants and support to Texas public schools.

Basis of Presentation

The consolidated financial statements include the accounts of Communities Foundation of Texas and the W.W. Caruth, Jr. Foundation (also collectively referred to as the Foundation). The W.W. Caruth, Jr. Foundation is a support organization under the provisions of Section 509(a)(3) of the Internal Revenue Code, which the Foundation has control by virtue of having common trustees. The Foundation is responsible for expenditures of this affiliated organization for specific charitable purposes. Also, included in the consolidated financial statements are the accounts of CFTRs 11, and 12. The primary purpose of these entities is to hold and manage real estate properties and the Foundation owns 100% of their outstanding stock. All significant intercompany accounts have been eliminated in consolidation.

The accompanying consolidated financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Accordingly, actual results could differ significantly from those estimates. Significant estimates affecting the financial statements include the calculation of receivables and liabilities associated with split interest agreements.

Contributions

Contributions are recognized as revenue when they are received or unconditionally promised.

The Foundation reports gifts of cash and other assets as restricted support when they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or program restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Net assets are released from donor restrictions by incurring expenses, including grant authorizations, that satisfy the restricted purposes or by occurrence of other events specified by donors. When a donor changes a restriction, the resulting change in net assets is reported as an interfund transfer in the statement of activities.

Bequests

The Foundation records bequests as contribution revenue at the date the will is declared valid by the probate court and the amount to be received by the Foundation can be reasonably determined.

Cash Equivalents

Cash equivalents consist of highly liquid investments with an initial maturity of three months or less.

Investments

The Foundation records investments in marketable securities with readily determinable market values at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statement of activities.

The Foundation records investments in real estate investment trusts with readily determinable market values at their fair values in the statement of financial position. Investments in real estate investment trusts that do not have a readily determinable market value are recorded at cost and evaluated for impairment annually. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statement of activities.

The fair value of investments is determined using quoted market prices, except for alternative investments for which quoted market prices are not available. The fair value of certain alternative investments such as hedge funds and private equity interest is based upon the net asset value provided by the external investment managers as of June 30, 2010. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value (see Note 2).

The Foundation is a trustee of various charitable remainder trusts. The assets are recorded in investments at fair value and the liability is recorded equal to the time value of the expected future distributions. The difference between the asset value and the liability value is the amount of contribution revenue recognized. These values are re-evaluated annually using an appropriate discount rate and revised actuarial assumptions.

Real Estate Investments

Real estate investments are stated primarily at historical cost if purchased or fair market value at the date of donation. Periodic fair value appraisals are made as deemed necessary based upon economic conditions and management discretion to determine whether the real estate is impaired.

Financial Instruments with Off-Balance Sheet Risk

In connection with its trading activities, the Foundation enters into transactions with a variety of securities. These securities may have market and/or credit risk.

Market risk arises primarily from changes in the market value of financial instruments. Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments, and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease the Foundation's overall exposure to market risk. The Foundation attempts to control its exposure to market risk through a highly diversified investment portfolio.

Concentration of credit risk arises primarily from investing a large portion of total investments with a few investment managers or brokers. The Foundation is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Foundation may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Foundation’s policy to transact with counterparties with good credit standing.

In the normal course of its business, the Foundation enters into contracts and agreements with certain service providers, such as clearing and custody agents, trustees and administrators that contain a variety of representations and warranties and which provide general indemnifications and guarantees against specified potential losses in connection with their activities as an agent of, or providing services to, the Foundation. The Foundation expects the risk of any future obligation arising from potential losses under these arrangements to be remote and has not recorded any contingent liability in the financial statements for these indemnifications.

The investment managers of underlying investment partnerships or funds in which the Foundation invests may utilize derivative instruments with off-balance-sheet risk. The Foundation's exposure to risk is limited to the amount of its investment.

Limited Partnership Interest

Partnership interests are carried at the lower of cost or fair value at date of donation. Investments in partnerships with readily determinable fair values are carried at fair value.

Cash Surrender Value of Life Insurance Policies

Cash surrender value of life insurance is recorded at the amount that can be realized at the date of the statements of financial position.

Headquarters and Equipment

Headquarters and equipment are recorded at estimated fair market value at the date of donation or at cost if purchased. Depreciation is recorded using the straight-line method based on expected useful lives ranging from 3 to 40 years.

Amortization

The fair values of licensing agreements which were donated are being amortized on a straight-line basis over their expected lives of ten years. Amortization expense charged to operations was approximately $43,000 and $95,000 for the years ended June 30, 2010 and 2009, respectively.

Grants

Grants are recorded as expense when they are approved by the Board of Trustees for payment and all conditions of the grant have been met.

Fair Values of Financial Instruments

The carrying value of the Foundation's financial instruments, not otherwise disclosed herein, is comparable to the fair value due to the short-term nature of these financial instruments.

Income Tax Matters

The Foundation is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in IRC Section 501(c)(3). Accordingly, no provision for income taxes has been made related to the Foundation; however, should the Foundation engage in activities unrelated to the purpose for which it was created, taxable income could result. Capital gains received through partnership interests are taxable. The Foundation has not incurred any federal income tax for the years ended June 30, 2010 and 2009.

FASB provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Foundation's tax return to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold would be recorded as a tax benefit or expense and liability in the current year. Management has determined that there are no material uncertain income tax positions. The Foundation is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2006.

Net Asset Classification

The Board of Directors, on the advice of legal counsel, has determined that the majority of the Foundation's endowment funds meet the definition of endowment funds under UPMIFA. Most contributions are received subject to the terms of a standard fund agreement.

Under the terms of the standard fund agreement, the Board of Directors has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest, or fund as the board in its sole discretion shall determine under the Foundation's current spending policy. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment 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

As a result of the ability to distribute corpus, the Board of Directors has determined that all contributions received subject to the standard fund agreement, and subject to UPMIFA, are classified as temporarily restricted until appropriated, at which time the appropriation is reclassified to unrestricted net assets. Contributions that are subject to other gift instruments may be recorded as permanently restricted, temporarily restricted, or unrestricted, depending on the specific terms of the agreement.

Generally, if the corpus of a contribution will at some future time become available for spending it is recorded as temporarily restricted, if the corpus never becomes available for spending it will be reported as permanently restricted. In addition, contributions that are promised to be given in a future period are presented as temporarily restricted until the payments are due.

Endowment Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowments that attempt to provide a predictable stream of funding to programs supported by its endowment. The Foundation's investment and spending policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is compared to a similarly weighted benchmark representing appropriate market based indices. The performance is also compared to the general inflation rate as measured by the Consumer Price Index.

The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds. The current spending policy is to distribute an amount not greater than 5% of the average of the preceding sixteen quarters fund balance.

Split Interest Agreements and Gift Annuities

Under charitable remainder trust and annuity agreements, the Foundation pays annual benefits from the trust's assets over the term of the trust to third party beneficiaries with remaining trust assets at the end of the trust's term being distributed to the Foundation and/or other charities as directed by the trust instrument. Under charitable gift annuities assets received are available for immediate use by the Foundation and annual benefits paid from the Foundation assets are distributed to third party beneficiaries over the term of the agreement. See Note 5 for additional information regarding the Foundation's split-interest agreements and gift annuities.

Subsequent Event Review

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 15, 2010.

Recent Accounting Pronouncements

In September 2009, the FASB issued authoritative guidance for fair value measurements and disclosures for investments in certain entities that calculate net asset value per share (or its equivalent). This guidance amends previously published guidance on using the net asset value per share provided by the investee to estimate the fair value of an alternative investment. This amended guidance applies to an investment that is required or permitted to be measured or disclosed at fair value on a recurring or nonrecurring basis and, as of the reporting entity's measurement date, meets both of the following criteria:

- The investment does not have a readily determinable fair value; and
- The investment is in an entity that has all of the following attributes:
  - The entity's primary business activity involves investing its assets, usually in the securities of other entities not under common management, for current income, appreciation, or both.
  - Ownership in the entity is represented by units of investments, such as shares of stock or partnership interests, to which proportionate shares of net assets can be attributed.
  - The funds of the entity's owners are pooled to avail owners of professional investment management.
  - The entity is the primary reporting entity.

If one or more of the immediately preceding four attributes is not present, the amendments in the guidance will only apply if the investment is in an entity for which it is industry practice to issue financial statements using guidance that is consistent with the measurement principles for investment companies.

The guidance states that a reporting entity is permitted, as a practical expedient, to measure the fair value of an investment within the scope of the guidance on the basis of the net asset value per share of the investment (or its equivalent, for example, partners' capital per share for an investment in a partnership) if the net asset value of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles for investment companies as of the reporting entity's measurement date. If an investment is within the scope of the guidance, for both recurring and nonrecurring measurements, the reporting entity is required to disclose certain information that enables users of its financial statements to understand the nature and risks of the investment.

Also, the guidance states that classification within the fair value hierarchy of a fair value measurement of an investment within the scope of this guidance that is measured at net asset value per share requires judgment considering many factors. Those factors, which may be of particular interest to employee benefit plans invested in collective investment funds, indicate that the fair value measurement of an investment within the scope of the guidance cannot be categorized as a Level 1 fair value measurement.

This guidance is effective for periods ending after December 15, 2009. The adoption of this guidance did not have a material impact on the Foundation's financial position, results of operations or cash flows.

In April 2009, the FASB issued guidance for mergers and acquisitions of not-for-profit entities. The objective of the new guidance is to improve the relevance, representational faithfulness and comparability of the information that a not-for-profit entity provides in its financial reports about a combination with one or more other not-for-profit entities, businesses, or nonprofit activities. To accomplish that, this guidance establishes principles and requirements for how a not-for-profit entity:

1. Determines whether a combination is a merger or an acquisition;
2. Applies the carryover method in accounting for a merger;
3. Applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer;
4. Determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition.

The new guidance also improves the relevance, representational faithfulness, and comparability of the information a not-for-profit entity provides about goodwill and other intangible assets after an acquisition by amending the goodwill and other intangible assets guidance, to make it fully applicable to not-for-profit entities. This new guidance is effective for mergers for which the merger date is on or after the beginning of an initial reporting period beginning on or after December 15, 2009 or for acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. The adoption of this guidance is not expected to have a significant impact on the financial statements.

In January 2010, the FASB issued Accounting Standards Update (Update 2010-06) No. 2010-06, "Improving Disclosures about Fair Value Measurements." FASB concluded that users will benefit from improved disclosures in this Update and that the benefits of the increased transparency in financial reporting will outweigh the costs of complying with the new requirements.

Update 2010-06 provides amendments to Subtopic 820 "Fair Value Measurements and Disclosures" that require new disclosures as follows:

- Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers.

- Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

Update 2010-06 provides amendments to Subtopic 820 "Fair Value Measurements and Disclosures" that clarify existing disclosures as follows:

- Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities.

- Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.

The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Management does not believe Update 2010-06 will have a significant impact on the financial statements.

Note 2. Investments

The fair value of investments at June 30, 2010 and 2009 are as follows (in thousands):

Investment Type	**2010**	2009
Government securities	**$ 52,357**	$ 29,713
Corporate bonds	**62,942**	89,972
Equities	**149,414**	141,251
Mutual funds	**43,395**	33,956
Pooled equity funds	**135,705**	121,904
Fund of funds	**18,839**	9,152
Real estate investment trust (REIT)	**14,835**	11,526
Other	**630**	1,563
	$ 478,117	$ 439,037

Investment income consisted of approximately $14,638,000 and $19,257,000 of interest and dividends and $305,000 and $468,000 of income on other investments for the years ended June 30, 2010 and 2009, respectively.

Note 3. Headquarters and Equipment

Headquarters and equipment as of June 30, 2010 and 2009 are summarized as follows (in thousands):

	2010	2009
Land	**$ 2,979**	$ 2,979
Building	**18,967**	18,305
Furniture	**1,180**	1,143
Office equipment	**294**	264
Computer equipment and software	**1,787**	1,715
	25,207	24,406
Less accumulated depreciation and amortization	**(6,312)**	(5,530)
Net headquarters and equipment	**$ 18,895**	$ 18,876

Note 4. Grants Payable

Grants approved and committed for future payment are payable in the following fiscal years ending June 30: 2011 - $23,509,000; 2012 - $8,506,000; 2013- $5,954,000; 2014 - $5,200,000; 2015- $607,000; thereafter - $302,000. Grants payable in more than one year have been reflected at present value on the consolidated statements of financial position, using a discount rate of 2.95%. Conditional grants were approximately $10,735,000 and $1,337,000 at June 30, 2010 and 2009, respectively, and are not recorded as expense until the conditions are met.

Note 5. Split-Interest Agreements

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). The portion of the trust attributable to the present value of the future benefits expected to be received by the Foundation is recorded in the statement of activities as a temporarily restricted contribution in the period the trust is established. Such contributions totalled approximately $6,000 and $11,000 for the years ended June 30, 2010 and 2009, respectively. Assets held in the charitable remainder trusts totalled approximately $7,614,000 and $7,548,000 at June 30, 2010 and 2009, respectively, and are reported at fair market values in the Foundation's statement of financial position. The present value of the estimated future payments to designated beneficiaries other than the Foundation were approximately $1,907,000 and $1,973,000 at June 30, 2010 and 2009, respectively, is recorded as a liability in the accompanying statements of financial position.

Assets received under charitable gift annuity agreements are recorded at fair value. Related contributions per the agreements are recognized as contribution revenue and are equal to the fair value of the assets received less the present value of the expected future payments to the annuitant and/or other charities. Contribution recognized for the fiscal year ending June 30, 2010 was $300,000. Liabilities have been established for amounts due to the annuitant and other charities. These liabilities totaled approximately $250,000 at June 30, 2010.

The Foundation is also a beneficiary of five charitable remainder trusts held by banks. The Foundation was notified of one of these during the year ended June 30, 2009 and recorded it at present value of approximately $3,000,000. The total present value of the future benefits expected to be received as of June 30, 2010 and 2009 from the trusts amounted to approximately $6,034,000 and $5,637,000, and is included in contributions receivable. The change in valuation of the trusts is recorded annually as a change in value of split-interest agreements in the accompanying statement of activities.

Note 6. Funds Held for Others

The Foundation receives and distributes assets under certain agency arrangements with various not-for-profit organizations. The related amounts received but not yet distributed totaled approximately $30,606,000 and $6,269,000 at June 30, 2010 and 2009, respectively.

Note 7. Net Assets

Included in unrestricted net assets are approximately $236,855,000 and $222,438,000 of donor-advised funds as of June 30, 2010 and 2009, respectively. Although grant recommendations are accepted from the donors or other advisors of these funds, the ultimate discretion of the use of these funds lies with the Board of Trustees.

Temporarily restricted net assets of $95,960,000 and $108,235,000 consist of funds available for grant recipients as originally designated by donors of $5,897,000 and $24,482,000 and charitable remainder trusts totalling $5,707,000 and $5,575,000 at June 30, 2010 and 2009, respectively.

Permanently restricted net assets include donations that the donor intended to remain in perpetuity. Income derived from these assets is reported as unrestricted unless a purpose restriction has been imposed by the donor.

Endowment net asset composition by type of fund as of June 30, 2010 and 2009 is summarized below (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2010:				
Donor-restricted endowments	**$ -**	**$ 90,063**	**$ 7,191**	**$ 97,254**
Board-designated endowment	**17,771**	**-**	**-**	**17,771**
	$ 17,771	**$ 90,063**	**$ 7,191**	**$ 115,025**
June 30, 2009:				
Donor-restricted endowments	$ -	$ 83,753	$ 7,054	$ 90,807
Board-designated endowment	16,218	-	-	16,218
	$ 16,218	$ 83,753	$ 7,054	$ 107,025

The changes in endowment net assets for the fiscal year ended June 30, 2010 and 2009 is summarized below (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2008	$ 20,172	$ -	$ 90,472	$ 110,644
Net asset reclassification due to adoption of FSP 117-1	-	83,576	(83,576)	-
Endowment net asset after reclassification	20,172	83,576	6,896	110,644
Investment income	562	-	1	563
Net losses (both realized and unrealized)	(3,544)	(716)	-	(4,260)
Total investment return	(2,982)	(716)	1	(3,697)
Contributions	28	5,519	157	5,704
Appropriation of endowment assets for expenditure	(1,000)	(176)	-	(1,176)
Endowment released from restriction	-	(4,450)	-	(4,450)
Endowment net assets at June 30, 2009	16,218	83,753	7,054	107,025
Investment income	413	-	-	413
Net gains (both realized and unrealized)	2,054	43	-	2,097
Total investment return	2,467	43	-	2,510
Contributions	-	6,267	137	6,404
Appropriation of endowment assets for expenditure	(914)	-	-	(914)
Endowment net assets at June 30, 2010	$ 17,771	$ 90,063	$ 7,191	$ 115,025

Note 8. Employee Benefit Plans

The Foundation has a defined benefit employee retirement plan for all employees who have completed one year of service. Enrollment in this plan was closed to new participants in 2005. In the year ended June 30, 2008, the Plan reopened to allow the minimum number of employees in the Plan to maintain its qualified status. In September 2008, the Foundation's Board of Directors adopted a resolution to curtail the CFT Employees Retirement Plan (the Plan), with no further benefits accruing for current participants. The Plan will terminate once it is fully funded.

Obligations and funded status (in thousands):

	2010	2009
Benefit obligation	$ 2,854	$ 2,568
Plan assets at fair value	1,719	1,669
Funded status	$ (1,135)	$ (899)
Accumulated benefit obligation	$ 2,854	$ 2,568
Employer contributions	75	100
Benefits paid	(59)	(158)

Amounts recognized in the statement of financial position consist of (in thousands):

	2010	2009
Accrued liabilities and other payables	$ 1,135	$ 899

Other changes in plan assets and benefit obligations recognized in changes in unrestricted net assets (in thousands):

	2010	2009
Interest cost	$ -	$ 166
Service cost	159	18
Amortization of prior service cost and net loss	35	9
Expected return on plan assets	(135)	(164)
Net settlement loss	53	-
Net curtailment loss	-	323
Total recognized in net periodic pension cost and unrestricted net assets	$ 112	$ 352

The estimated net loss and prior service cost for the defined benefit employee retirement plan that will be amortized from changes in unrestricted net assets into net periodic benefit cost over the next fiscal year is $40,000.

The following assumptions were used in accounting for the plan:

	2010	2009
Weighted-average assumptions used to determine benefit obligations at:		
Discount rate	**5.00%**	6.25%
Rate of compensation increase	**N/A**	N/A
Weighted-average assumptions used to determine net periodic benefit cost for year ended:		
Discount rate	**6.25%**	6.75%
Expected return on plan assets	**8.0%**	8.0%
Rate of compensation increase	**N/A**	N/A

The total expected of return on assets is determined by assessing the rates of return on each targeted asset class, return premiums generated by portfolio management, and by a comparison of rates used by other companies.

The overall investment goal of the Plan is to achieve a "real" long-term rate of return over inflation resulting from income, capital gains, or both which will assist the Plan in meeting its long-term objectives. Investment management of the assets is in accordance with the Plan's Investment Policy that includes an asset target allocation of 50% Equities and 50% Fixed Income, with a 10% allowance either way. Periodically, the entire account is rebalanced to maintain the desired allocation and the Investment Policy is reviewed. Within each asset class, assets are allocated to various investment cycles. Professional managers manage all assets of the Plan and professional advisors assist the Plan in the attainment of its objectives.

	2010	2009
Estimated future benefit payments		
Next fiscal year (Year 1)	**$ 68**	$ 59
Year 2	**162**	68
Year 3	**162**	176
Year 4	**184**	176
Year 5	**239**	198
Years 6-10	**1,206**	1,270
Estimated contributions in next fiscal year	**100**	100

The fair values of the Foundation's Pension Plan assets at December 31, 2010, by asset class are as follows:

	Fair Value Measurements at June 30, 2010		
Asset Class	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Cash	$ 53	$ 53	$ -
Equity securities	992	992	-
Debt securities	674	-	674
	$ 1,719	$ 1,045	$ 674

The Foundation has a defined contribution plan which covers all full-time employees of the Foundation who have completed one year of service and attained the age of 21. Participating employees can contribute on a voluntary basis up to 82% of eligible earnings not to exceed the amount allowed by law. The Foundation makes matching contributions on a discretionary basis, as determined by the Board of Trustees. In addition, all employees that have been in service over one year receive a contribution equal to 4% of their annual salary. Costs associated with the Plan including contributions were approximately $187,000 in 2010 and $452,000 in 2009.

Note 9. Concentration of Credit

At June 30, 2010, the Foundation maintained uninsured balances of cash and cash equivalents of approximately $127,012,000 with financial institutions and investment brokers. The W. W. Caruth, Jr. Foundation assets are all held and managed by Bank of America. The Foundation has evaluated these institutions and does not expect any losses related to these concentrations.

Note 10. Fair Value Measurements

Guidance provided by the FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

> Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The type of investments included in Level 1 include listed equities and listed derivatives. As required by the guidance provided by the FASB, the Foundation does not adjust the quoted price for these investments, even in situations where the Foundation holds a large position and a sale could reasonably impact the quoted price.

Level 2 – Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

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

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

During the year ended December 31, 2009, the FASB issued additional guidance for "Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)", which, among other things, provides new guidance on classifying these investments within the fair value hierarchy. This new guidance states that if the Foundation has the ability to redeem its investment with the investee at the net asset value per share in the near term (three months following December 31st), the fair value measurement of the investment is categorized as a Level 2 fair value measurement. If the Foundation does not have the ability to redeem its investment at the net asset value per share in the near term due to a provision that allows redemptions at other times than those defined as the near term or funds that are in a lock up, gate, or other redemption restriction, the investment is categorized as a Level 3 fair value measurement. This additional guidance resulted in a reclassification of some of the Foundation's assets within the fair value hierarchy from Level 3 to Level 2 as of January 1, 2009.

The following table represents the fair value hierarchy for those assets and liabilities reported on the consolidated statement of financial position at their fair value on a reoccurring basis as of June 30, 2010 and June 30, 2009 by level (in thousands):

		Fair Value Measurements at Reporting Date Using		
	Assets Measured at Fair Value June 30	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2010				
Measured on a recurring basis:				
Assets:				
Cash equivalents	**$ 38,642**	**$ 16,311**	**$ 1**	**$ 22,330**
Government securities	**52,358**	**23,202**	**29,156**	**-**
Corporate bonds	**62,942**	**-**	**62,942**	**-**
Equities	**148,253**	**148,253**	**-**	**-**
Mutual funds	**43,395**	**43,395**	**-**	**-**
Pooled equity funds	**135,705**	**-**	**135,705**	**-**
Fund of funds	**18,839**	**-**	**14,276**	**4,563**
REITs	**12,790**	**30**	**12,760**	**-**
Other investments	**630**	**-**	**630**	**-**
Contribution receivable (Sharpe Unitrust)	**2,276**	**-**	**-**	**2,276**
June 30, 2009				
Measured on a recurring basis:				
Assets:				
Cash equivalents	$ 34,243	$ 15,933	$ 88	$ 18,222
Government securities	29,713	2,687	27,026	-
Corporate bonds	89,972	-	89,972	-
Equities	141,251	140,088	-	1,163
Mutual funds	33,956	33,956	-	-
Pooled equity funds	121,904	-	-	121,904
Fund of funds	9,152	-	-	9,152
REITs	11,526	-	-	11,526
Other investments	1,563	68	707	788
Contribution receivable (Sharpe Unitrust)	2,108	-	-	2,108

Investment securities are classified within Level 1, Level 2 and Level 3 of the valuation hierarchy. The Foundation obtains fair value measurements for investment securities from investment managers and brokers. The fair value measurements for Level 1 investment securities consider observable data that may include quoted prices in active markets. The fair value measurements for Level 2 investment securities consider observable data that may include quoted prices on similar assets in active markets, quoted prices on actual assets that are not active, inputs other than quoted prices such as yield curves, volatilities, and prepayment speeds, and other inputs derived from market data. The fair value measurements for Level 3 investment securities consider unobservable data and estimates to value the securities using methods such as the future cash flow approach and the liquidation of secured assets approach based on management's projections and audited financial statements. The inputs for Level 3 securities are estimates and actual values may change in the future due to economic conditions.

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows (in thousands):

Balance, July 1, 2008	$	163,884
Change in unrealized gain/(loss) on investments		(13,974)
Investment purchases		75,979
Investment sales		(77,729)
Transfers in		35,320
Transfers out		(18,617)
Balance, June 30, 2009		164,863
Transfer from Level 3 to Level 2		(95,585)
Change in unrealized gain/(loss) on investments		7,904
Investment purchases		62,570
Investment sales		(78,284)
Transfers in		635
Transfers out		(32,934)
Balance, June 30, 2010	**$**	**29,169**

The total unrealized appreciation attributable to Level 3 investments held at June 30, 2010 and 2009 is $417,000 and $35,740,000, respectively.

The following table provides additional information that will help describe the nature and risk of the investments held at June 30, 2010 by major category:

		Fair Value (In Thousands)	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity index pool [a]	$	78,769	Weekly, Bi-Weekly, Monthly	3-30 days
Bond index pool [b]		12,243	Weekly	3 days
REIT pool [c]		12,760	Bi-Weekly	15 days
Actively managed long only [d]		56,936	Weekly, Bi-Weekly, Monthly	1-15 days
Multistrategy hedge funds [e]		6,596	Quarterly	65 -180 days
	$	167,304		

(a) This category includes commingled accounts that invest only in public equities. No accounts have short positions. The investments are managed as a passive equity index.

(b) These investments are commingled accounts that invest only in public bonds. No accounts have short positions. The investments are managed as passive bond market indexes.

(c) These investments are commingled accounts that invest only in public real estate investment trusts. No accounts have short positions. The investment is managed as a passive real estate investment trust index.

(d) This category contains managers that are hired to buy and sell equity securities and are measured against an equity benchmark. No accounts have short positions.

(e) This category consists of hedge funds that invest in a variety of managers and strategies. Management of the fund has the ability to shift assets between different sub-sectors, capitalizations, and also have the ability to hold a net long or net short position. The fair values of the investments in this category have been provided by the underlying hedge fund managers. Investments representing approximately 3.2% of the footnote value were not available to be redeemed as of June 30, 2010, because of lockups that do not allow redemption for 6 months after June 30, 2010.

Note 11. Summarized Consolidating Financial Statement Information (in thousands) as of June 30, 2010:

ASSETS	Communities Foundation of Texas, Inc. and Consolidated Subsidiaries	W.W. Caruth, Jr. Foundation	Eliminations	Total
Cash and cash equivalents	$ 125,846	$ 16,300	$ -	$ 142,146
Investment securities	272,970	205,147	-	478,117
Other assets	54,992	30,087	(286)	84,793
Total assets	$ 453,808	$ 251,534	$ (286)	$ 705,056
LIABILITIES AND NET ASSETS				
Grants payable	$ 44,078	$ -	$ -	$ 44,078
Other Liabilities	35,198	286	(286)	35,198
Net assets:				
Unrestricted	253,610	251,248	-	504,858
Board designated endowments	17,771	-	-	17,771
Temporarily restricted	95,960	-	-	95,960
Permanently restricted	7,191	-	-	7,191
Total net assets	374,532	251,248	-	625,780
Total liabilities and net assets	$ 453,808	$ 251,534	$ (286)	$ 705,056

	Communities Foundation of Texas, Inc. and Consolidated Subsidiaries	W.W. Caruth, Jr. Foundation	Eliminations	Total
Changes in unrestricted net assets:				
Revenues and gains:				
Contributions	$ 63,501	$ -	$ (12,836)	$ 50,665
Investment income	6,971	6,784	-	13,755
Other income and gains (losses)	26,620	15,738	(1,149)	41,209
	97,092	22,522	(13,985)	105,629
Interfund transfers	(634)	-	-	(634)
Net assets released from restrictions	27,957	-	-	27,957
Total unrestricted revenues	124,415	22,522	(13,985)	132,952
Grants	76,050	12,836	(12,836)	76,050
Other expenses	18,122	5,547	(1,149)	22,520
Increase in unrestricted net assets	30,243	4,139	-	34,382
Decrease in temporarily restricted net assets	(12,275)	-	-	(12,275)
Increase in permanently restricted net assets	137	-	-	137
Increase in net assets	18,105	4,139	-	22,244
Net assets, beginning of year	356,427	247,109	-	603,536
Net assets, end of year	$ 374,532	$ 251,248	$ -	$ 625,780