McGladrey & Pullen
Certified Public Accountants

Communities Foundation of Texas

Financial Report
June 30, 2009

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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, 2009 and 2008, 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, 2009 and 2008, 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.

As discussed in Note 10 to the financial statements, effective July 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157 "Fair Value Measurements."

McGladrey & Pullen, LLP

Dallas, Texas
October 2, 2009

Communities Foundation of Texas

Consolidated Statements of Financial Position
June 30, 2009 and 2008
(In thousands)

ASSETS	2009	2008
Cash and cash equivalents	$ 143,533	$ 142,020
Investments (Note 2)	439,037	533,736
Interest, dividends and other receivables	3,858	7,783
Contributions receivable (Note 5)	6,123	5,354
Real estate held for investment	28,447	31,293
Limited partnership interests	10,031	3,831
Cash surrender value of life insurance policies	135	11,023
Headquarters and equipment, net (Note 3)	18,876	18,206
Other assets	668	1,207
Total assets	$ 650,708	$ 754,453
LIABILITIES AND NET ASSETS		
Accrued liabilities and other payables (Note 8)	$ 3,786	$ 1,054
Grants payable (Note 4)	35,144	34,802
Funds held for others (Note 6)	6,269	5,615
Liabilities associated with split-interest agreements (Note 5)	1,973	2,472
Total liabilities	47,172	43,943
Net assets: (Note 7)		
Unrestricted	472,029	558,181
Unrestricted Board designated endowments	16,218	20,172
Temporarily restricted	108,235	41,685
Permanently restricted	7,054	90,472
Total net assets	603,536	710,510
Total liabilities and net assets	$ 650,708	$ 754,453

See Notes to Consolidated Financial Statements.

Communities Foundation of Texas

Consolidated Statements of Activities
Years Ended June 30, 2009 and 2008
(In thousands)

	2009	2008
Changes in unrestricted net assets:		
Revenues and gains:		
Contributions	$ 36,046	$ 47,201
Investment income (Note 2)	17,310	25,696
Net realized (loss) gain on sales of investments	(48,897)	1,145
Net unrealized loss on investments	(38,689)	(58,793)
Change in value of split-interest agreements	293	47
Other	2,986	4,642
	(30,951)	19,938
Interfund transfers	6,183	1,657
Net assets released from restrictions	30,678	23,695
Net unrestricted revenues	5,910	45,290
Grants and expenses:		
Programs:		
Grants	73,454	76,888
Other	9,416	5,452
W.W. Caruth, Jr. Foundation:		
Medallion Center	1,659	2,635
Other	701	2,216
Supporting activities:		
Administrative expenses	5,432	5,711
Development	1,303	1,282
Fund management	4,051	935
	96,016	95,119
Decrease in unrestricted net assets	(90,106)	(49,829)
Changes in temporarily restricted net assets:		
Contributions	31,232	31,875
Investment income (Note 2)	2,415	3,387
Net realized (loss) gain on sales of investments	(2,875)	3,327
Net unrealized loss on investments	(11,065)	(10,070)
Other	130	147
Interfund transfers	(6,185)	(2,844)
Net assets released from restrictions	(30,678)	(23,695)
(Decrease) increase in temporarily restricted net assets before cumulative effect of adoption of FSP 117-1	(17,026)	2,127
Cumulative effect of adoption of FSP 117-1	83,576	-
Increase in temporarily restricted net assets	66,550	2,127
Changes in permanently restricted net assets:		
Contributions	156	2,777
Investment income (Note 2)	-	5
Net unrealized loss on investments	-	(43)
Interfund transfers	2	1,188
Increase in permanently restricted net assets before cumulative effect of adoption of FSP 117-1	158	3,927
Cumulative effect of adoption of FSP 117-1	(83,576)	-
(Decrease) increase in permanently restricted net assets	(83,418)	3,927
Change in net assets	(106,974)	(43,775)
Net assets, beginning of year	710,510	754,285
Net assets, end of year	$ 603,536	$ 710,510

See Notes to Consolidated Financial Statements.

Communities Foundation of Texas

Consolidated Statements of Cash Flows
Years Ended June 30, 2009 and 2008
(In thousands)

		2009		2008
Cash flows from operating activities:				
Change in net assets	**$**	**(106,974)**	$	(43,775)
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation		**1,906**		1,918
Amortization of license agreements		**95**		95
Net unrealized loss on investments		**49,754**		68,906
Net realized loss (gain) on sales of investments		**51,772**		(4,472)
Impairment on limited partnership interest		**192**		-
Increase (decrease) in grants payable		**342**		(2,845)
Decrease (increase) in contributions, interest, dividends and other receivables		**3,156**		(2,272)
Decrease in cash surrender value of life insurance policies		**368**		147
Net change in other assets and other liabilities		**3,176**		729
Decrease in liabilities associated with split-interest agreements		**(371)**		(47)
Increase (decrease) in liabilities associated with funds held for others		**654**		(471)
Permanently restricted contributions		**(156)**		(2,777)
Noncash grants		**11,124**		783
Noncash contributions		**(12,785)**		(15,389)
Net cash used in operating activities		**2,253**		530
Cash flows from investing activities:				
Purchases of investments		**(374,168)**		(164,775)
Proceeds from the sale of investments		**375,839**		159,466
Proceeds from sale of real estate held for investment		**1,350**		-
Additions to real estate held for investment		**(1,134)**		(111)
Headquarters and equipment purchases		**(202)**		(456)
Other limited partnership activity, net		**(2,581)**		1,824
Net cash used in investing activities		**(896)**		(4,052)
Cash flows from financing activities:				
Contributions received with permanent restrictions		**156**		2,777
Net cash provided by financing activities		**156**		2,777
Net increase (decrease) in cash and cash equivalents		**1,513**		(745)
Cash and cash equivalents, beginning of year		**142,020**		142,765
Cash and cash equivalents, end of year	**$**	**143,533**	$	142,020
Supplemental data:				
Noncash investing and financing activities:				
Contributions of securities	**$**	**5,334**	$	14,039
Contribution of limited partnership interest	**$**	**7,451**	$	-
Contribution of real estate	**$**	**-**	$	1,350
Grant of securities	**$**	**348**	$	-
Grant of life insurance policy	**$**	**10,520**	$	-
Grant of real estate	**$**	**256**	$	783

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. 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 CFTH, Inc., Caruth Homeplace, Inc. and CFTRs 1, 3, 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 fair value of marketable securities, real estate and limited partnership investments. In addition, the calculation of receivables and liabilities associated with split interest agreements is a significant estimate.

Contributions

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

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.

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.

The fair value of investments is estimated using quoted market prices, except for alternative investments for which quoted market prices are not available. The estimated fair value of certain alternative investments such as hedge funds and private equity interest is based upon valuations provided by the external investment managers as of June 30, 2009. 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.

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 money 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.

<u>Limited Partnership Interest</u>

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.

<u>Cash Surrender Value of Life Insurance Policies</u>

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

<u>Headquarters and Equipment</u>

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.

<u>Amortization</u>

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 $95,000 for the years ended June 30, 2009 and 2008, respectively.

Grants

Grants are recorded 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.

Net Asset Classification

In August 2008, The Financial Accounting Standards Board (FASB) issued Staff Position No. FSP 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP 117-1 also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA. The adoption of FSP 117-1 required the Foundation to reclassify certain permanent endowment funds that fell under UPMIFA to temporarily restricted.

The Board of Directors does have the ability to distribute any amount of the corpus of any gift or fund as long as the entire amount is not disbursed in one fiscal year. 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, unless directly addressed in the specific terms in the agreement, all donor restricted endowments will be classified as temporarily restricted until appropriated.

Generally, if the corpus of a contribution will at some future time become available for spending, it is recorded as temporarily 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.

Recent Accounting Pronouncements

The FASB recently issued the following accounting standard:

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected this deferral and accordingly will be required to adopt FIN 48 in its 2010 annual financial statements. Prior to adoption of FIN 48, the Foundation will continue to evaluate its uncertain tax positions and related income tax contingencies under SFAS No. 5, "Accounting for Contingencies." SFAS No. 5 requires the Foundation to accrue for losses it believes are probable and can be reasonably estimated. Management is currently assessing the impact of FIN 48 on its financial position and related statements of activities and changes in net assets and cash flows and do not expect it to have a material effect on the consolidated financial statements.

In April 2009, the FASB issued SFAS No. 164, "Not-for-Profit Entities: Mergers and Acquisitions". The objective of SFAS No 164 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 Statement 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.

SFAS No. 164 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 SFAS No. 142, "Goodwill and Other Intangible Assets", to make it fully applicable to not-for-profit entities. This Statement 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. Management does not believe SFAS No. 164 will have a significant impact on the financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events". The objective of SFAS No. 165 is to establish principles and requirements for subsequent events and, in particular, the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim and annual reporting periods ending after June 15, 2009. The Foundation adopted SFAS No. 165 for the period ended June 30, 2009. Adoption did not have a material effect on the financial statements.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform them to the 2009 financial statement presentation.

Note 2. Investment Securities

The cost and the fair value of investments at June 30, 2009 and 2008 are as follows (in thousands):

	2009		2008	
Investment Type	**Cost**	**Fair Value**	Cost	Fair Value
Government securities	**$ 29,257**	**$ 29,713**	$ 29,711	$ 30,568
Corporate bonds	**87,830**	**89,972**	155,954	148,277
Equities	**146,707**	**141,251**	171,708	181,585
Mutual funds	**41,295**	**33,956**	31,860	32,478
Pooled equity funds	**147,878**	**121,904**	103,408	105,104
Fund of funds	**10,300**	**9,152**	10,499	11,984
Real estate investment trust (REIT)	**20,144**	**11,526**	24,811	22,713
Other	**1,560**	**1,563**	377	1,027
	$ 484,971	**$ 439,037**	$ 528,328	$ 533,736

Investment income consisted of approximately $19,257,000 and $23,390,000 of interest and dividends and $468,000 and $5,698,000 of income on other investments for the years ended June 30, 2009 and 2008, respectively.

Note 3. Headquarters and Equipment

Headquarters and equipment as of June 30, 2009 and 2008 are summarized as follows (in thousands):

	2009	2008
Land	**$ 2,979**	$ 2,979
Building	**18,305**	16,887
Furniture	**1,143**	1,101
Office equipment	**264**	203
Computer equipment and software	**1,715**	1,616
	24,406	22,786
Less accumulated depreciation and amortization	**(5,530)**	(4,580)
Net headquarters and equipment	**$ 18,876**	$ 18,206

Note 4. Grants Payable

Grants approved and committed for future payment are payable in the following fiscal years ending June 30: 2010 - $26,927,000; 2011 - $5,184,000; 2012 - $2,296,000; 2013 - $807,000; 2014- $315,000; thereafter - $447,000. 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 3.52%. Conditional grants totaled approximately $1,337,000 at June 30, 2010 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 $11,000 and $489,000 for the years ended June 30, 2009 and 2008, respectively. Assets held in the charitable remainder trusts totalled approximately $7,548,000 and $9,189,000 at June 30, 2009 and 2008, 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 of approximately $1,973,000 and $2,472,000 at June 30, 2009 and 2008, respectively, is recorded as a liability in the accompanying statements of financial position.

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 one during the year ended June 30, 2008 and recorded it at present value of approximately $3,000,000 and $390,000, respectively. The total present value of the future benefits expected to be received as of June 30, 2009 and 2008 from the trusts amounted to approximately $5,637,000 and $3,604,000, 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 $6,269,000 and $5,615,000 at June 30, 2009 and 2008, respectively.

Note 7. Net Assets

Included in unrestricted net assets are approximately $222,438,000 and $293,731,000 of donor-advised funds as of June 30, 2009 and 2008, 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 $108,235,000 and $41,685,000 consist of funds available for grant recipients as originally designated by donors of $24,482,000 and $34,968,000 and charitable remainder trusts totaling $5,575,000 and $6,717,000 at June 30, 2009 and 2008, respectively. In addition, in 2009 it includes unappropriated endowment funds of $84,000.

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, 2009 is summarized below (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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, 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

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):

	2009	2008
Benefit obligation	**$ 2,568**	$ 2,517
Plan assets at fair value	**1,669**	2,044
Funded status	**$ (899)**	$ (473)
Accumulated benefit obligation	**$ 2,568**	$ 2,451
Employer contributions	**100**	100
Benefits paid	**(158)**	(38)

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

	2009	2008
Accrued liabilities and other payables	**$ 899**	$ 473

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

	2009	2008
Interest cost	**$ 166**	$ 139
Service cost	**18**	49
Amortization of prior service cost and net loss	**9**	28
Expected return on plan assets	**(164)**	(164)
Net curtailment loss	**323**	-
Total recognized in net periodic pension cost and unrestricted net assets	**$ 352**	$ 52

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 $0.

The following assumptions were used in accounting for the plan:

	2009	2008
Weighted-average assumptions used to determine benefit obligations at:		
Discount rate	**6.25%**	6.75%
Rate of compensation increase	**N/A**	5.0%
Weighted-average assumptions used to determine net periodic benefit cost for year ended:		
Discount rate	**6.75%**	6.25%
Expected return on plan assets	**8.0%**	8.0%
Rate of compensation increase	**N/A**	5.0%

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 percentage of the fair value of total plan assets held as of June 30, 2009 and 2008 (the measurement date) by asset category is as follows:

	2009	2008
Cash	**1.8%**	2.8%
Equity securities	**49.0%**	58.8%
Debt securities	**49.2%**	38.4%
	100%	100%

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.

	2009	2008
Estimated future benefit payments		
Next fiscal year (Year 1)	**$ 59**	$ 90
Year 2	**68**	90
Year 3	**176**	76
Year 4	**176**	185
Year 5	**198**	185
Years 6-10	**1,270**	1,262
Estimated contributions in next fiscal year	**100**	100

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 80% 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 $452,000 in 2009 and $205,000 in 2008.

Note 9. Concentration of Credit

At June 30, 2009, the Foundation maintained a cash balance of approximately $7,635,000 in one financial institution. The balance is insured by the Federal Deposit Insurance Corporation up to $250,000. The W. W. Caruth, Jr. Foundation assets are all held and managed by Bank of America. The Foundation does not expect any losses related to these concentrations.

Note 10. Fair Value Measurements

Effective January 1, 2008, the Foundation adopted the provisions of SFAS No. 157, "Fair Value Measurements," for financial assets and financial liabilities. In accordance with FASB Staff Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157," the Foundation will delay application of SFAS No. 157 for non-financial assets and non-financial liabilities, until July 1, 2009. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FSP No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active," clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective on October 10, 2008. On April 9, 2009, the FASB issued FSP No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly decreased and Identifying Transactions That Are Not Orderly", emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation techniques used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions.

SFAS No. 157 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (1) independent, (2) knowledgeable, (3) able to transact and (4) willing to transact.

SFAS No. 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS No. 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

> Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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.

The following table represents assets and liabilities reported on the consolidated balance sheet at their fair value as of June 30, 2009 by level within the SFAS No. 157 fair value measurement hierarchy (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)
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
Net unrealized losses relating to assets held at June 30, 2009	$	35,740

Effective January 1, 2008, the Foundation adopted the provisions of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115". SFAS 159 permits the Foundation to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value measurement option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, thus the Foundation may record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principles, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. Adoption of SFAS No. 159 on July 1, 2008 had no impact on the Foundation's financial statements as there were no financial instruments for which fair value option was elected.

Note 11. Summarized Consolidating Financial Statement Information (in thousands):

ASSETS	Communities Foundation of Texas, Inc. and Consolidated Subsidiaries	W.W. Caruth, Jr. Foundation	Eliminations	Total
Cash and cash equivalents	$ 113,210	$ 30,323	$ -	$ 143,533
Investment securities	252,945	186,092	-	439,037
Other assets	37,444	30,963	(269)	68,138
Total assets	$ 403,599	$ 247,378	$ (269)	$ 650,708
LIABILITIES AND NET ASSETS				
Grants payable and other liabilities	$ 47,172	$ 269	$ (269)	$ 47,172
Net assets:				
Unrestricted	224,920	247,109	-	472,029
Board designated endowments	16,218	-	-	16,218
Temporarily restricted	108,235	-	-	108,235
Permanently restricted	7,054	-	-	7,054
Total net assets	356,427	247,109	-	603,536
Total liabilities and net assets	$ 403,599	$ 247,378	$ (269)	$ 650,708

	Communities Foundation of Texas, Inc. and Consolidated Subsidiaries	W.W. Caruth, Jr. Foundation	Eliminations	Total
Changes in unrestricted net assets:				
Revenues and gains:				
Contributions	$ 33,460	$ 10,451	$ (7,865)	$ 36,046
Investment income	9,530	7,780	-	17,310
Other income and gains (losses)	(45,723)	(37,618)	(966)	(84,307)
	(2,733)	(19,387)	(8,831)	(30,951)
Interfund transfers	6,183	-	-	6,183
Net assets released from restrictions	30,678	-	-	30,678
Total unrestricted revenues	34,128	(19,387)	(8,831)	5,910
Grants and expenses	93,656	11,191	(8,831)	96,016
Decrease in unrestricted net assets	(59,528)	(30,578)	-	(90,106)
Increase in temporarily restricted net assets	66,550	-	-	66,550
Decrease in permanently restricted net assets	(83,418)	-	-	(83,418)
Decrease in net assets	(76,396)	(30,578)	-	(106,974)
Net assets, beginning of year	432,822	277,688	-	710,510
Net assets, end of year	$ 356,426	$ 247,110	$ -	$ 603,536