

# **Communities Foundation of Texas**

Consolidated Financial Report  
June 30, 2011

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## 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, 2011 and 2010, 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Dallas, Texas  
September 30, 2011

**Communities Foundation of Texas**

**Consolidated Statements of Financial Position**  
**June 30, 2011 and 2010**  
(In thousands)

| <b>ASSETS</b>  | <b>2011</b>       | <b>2010</b>       |
|--|-------------------|-------------------|
| Cash and cash equivalents                                      | \$ 107,805        | \$ 142,146        |
| Investments (Note 2)   | 570,598           | 478,117           |
| Interest, dividends and other receivables                      | 6,251             | 3,352             |
| Contributions receivable (Note 10)                             | 19,265            | 16,951            |
| Beneficial interest in charitable remainder trusts (Note 5)    | 4,080             | 3,034             |
| Real estate held for investment                                | 31,223            | 31,799            |
| Limited partnership interests                                  | 11,042            | 9,992             |
| Cash surrender value of life insurance policies                | 215               | 148               |
| Headquarters and equipment, net (Note 3)                       | 18,050            | 18,895            |
| Other assets   | 578               | 622               |
|  | <hr/>             | <hr/>             |
| <b>Total assets</b>  | <b>\$ 769,107</b> | <b>\$ 705,056</b> |
|  | <hr/> <hr/>       | <hr/> <hr/>       |
| <b>LIABILITIES AND NET ASSETS</b>                              |                   |                   |
| Accrued liabilities and other payables (Note 8)                | \$ 1,869          | \$ 2,435          |
| Grants payable (Note 4)  | 29,679            | 44,078            |
| Funds held for others (Note 6)                                 | 32,724            | 30,606            |
| Liabilities associated with split-interest agreements (Note 5) | 1,833             | 1,907             |
| Liabilities associated with gift annuities (Note 5)            | 316               | 250               |
|  | <hr/>             | <hr/>             |
| <b>Total liabilities</b>                                       | <b>66,421</b>     | <b>79,276</b>     |
|  | <hr/>             | <hr/>             |
| Commitments  |                   |                   |
| Net assets: (Note 7)   |                   |                   |
| Unrestricted   | 557,716           | 504,858           |
| Unrestricted Board designated endowments                       | 20,432            | 17,771            |
| Temporarily restricted   | 117,308           | 95,960            |
| Permanently restricted   | 7,230             | 7,191             |
|  | <hr/>             | <hr/>             |
| <b>Total net assets</b>  | <b>702,686</b>    | <b>625,780</b>    |
|  | <hr/>             | <hr/>             |
| <b>Total liabilities and net assets</b>                        | <b>\$ 769,107</b> | <b>\$ 705,056</b> |
|  | <hr/> <hr/>       | <hr/> <hr/>       |

See Notes to Consolidated Financial Statements.

**Communities Foundation of Texas**

**Consolidated Statements of Activities  
Years Ended June 30, 2011 and 2010  
(In thousands)**

|  | 2011              | 2010              |
|--|-------------------|-------------------|
| Changes in unrestricted net assets:                      |                   |                   |
| Revenues and gains:                                      |                   |                   |
| Contributions  | \$ 30,235         | \$ 50,665         |
| Investment income (Note 2)                               | 10,276            | 13,755            |
| Net realized gain (loss) on sales of investments         | 15,341            | (4,992)           |
| Net unrealized gain on investments                       | 41,606            | 41,913            |
| Change in value of split-interest agreements             | 64                | (134)             |
| Other  | 5,931             | 4,422             |
|  | <u>103,453</u>    | <u>105,629</u>    |
| Net assets released from restrictions                    | <u>31,251</u>     | <u>27,957</u>     |
| Net unrestricted revenues                                | <u>134,704</u>    | <u>133,586</u>    |
| Grants and expenses:                                     |                   |                   |
| Programs:  |                   |                   |
| Grants   | 55,784            | 76,050            |
| Other  | 8,542             | 7,792             |
| W.W. Caruth, Jr. Foundation:                             |                   |                   |
| Medallion Center   | 1,538             | 1,624             |
| Other  | 3,037             | 2,774             |
| Supporting activities:                                   |                   |                   |
| Administrative expenses                                  | 4,343             | 4,775             |
| Development  | 2,387             | 2,095             |
| Fund management  | 3,554             | 3,460             |
|  | <u>79,185</u>     | <u>98,570</u>     |
| Increase in unrestricted net assets                      | <u>55,519</u>     | <u>35,016</u>     |
| Changes in temporarily restricted net assets:            |                   |                   |
| Contributions  | 18,977            | 22,694            |
| Investment income (Note 2)                               | 4,781             | 1,188             |
| Net realized gain (loss) on sales of investments         | (1,562)           | (1,857)           |
| Net unrealized gain on investments                       | 29,871            | 7,113             |
| Other  | 532               | 31                |
| Redesignation of assets by donors                        | -                 | (14,121)          |
| Net assets released from restrictions                    | (31,251)          | (27,957)          |
| Increase (decrease) in temporarily restricted net assets | <u>21,348</u>     | <u>(12,909)</u>   |
| Changes in permanently restricted net assets:            |                   |                   |
| Contributions  | 39                | 137               |
| Increase in permanently restricted net assets            | <u>39</u>         | <u>137</u>        |
| Change in net assets                                     | 76,906            | 22,244            |
| Net assets, beginning of year                            | <u>625,780</u>    | <u>603,536</u>    |
| Net assets, end of year                                  | <u>\$ 702,686</u> | <u>\$ 625,780</u> |

See Notes to Consolidated Financial Statements.

**Communities Foundation of Texas**

**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2011 and 2010**  
**(In thousands)**

|   | 2011            | 2010           |
|---|-----------------|----------------|
| Cash flows from operating activities:   |                 |                |
| Change in net assets  | \$ 76,906       | \$ 22,244      |
| Adjustments to reconcile change in net assets to net cash used in by operating activities:      |                 |                |
| Depreciation  | 2,764           | 1,794          |
| Amortization of license agreements  | -               | 43             |
| Net unrealized gain on investments  | (71,476)        | (49,026)       |
| Net realized gain on sale of real estate and equipment  | -               | (2)            |
| Net realized (gain) loss on sales of investments  | (13,780)        | 6,849          |
| (Decrease) increase in grants payable   | (14,399)        | 8,934          |
| Increase in contributions, interest, dividends and other receivables                            | (6,259)         | (13,356)       |
| Increase in cash surrender value of life insurance policies                                     | (67)            | (13)           |
| Net change in other assets and other liabilities  | (522)           | (1,348)        |
| (Decrease) increase in liabilities associated with split-interest agreements and gift annuities | (64)            | 178            |
| Increase in liabilities associated with funds held for others                                   | 2,118           | 24,337         |
| Permanently restricted contributions  | (39)            | (137)          |
| Noncash grants  | 477             | 78             |
| Noncash contributions   | (7,017)         | (2,781)        |
| <b>Net cash used in operating activities</b>  | <b>(31,358)</b> | <b>(2,206)</b> |
| Cash flows from investing activities:   |                 |                |
| Purchases of investments  | (204,585)       | (272,264)      |
| Proceeds from the sale of investments   | 204,468         | 277,887        |
| Proceeds from sale of real estate held for investment   | -               | 4              |
| Additions to real estate held for investment  | (46)            | (4,442)        |
| Headquarters and equipment purchases  | (1,774)         | (803)          |
| Other limited partnership activity, net   | (1,085)         | 300            |
| <b>Net cash (used in) provided by investing activities</b>                                      | <b>(3,022)</b>  | <b>682</b>     |
| Cash flows from financing activities:   |                 |                |
| Contributions received with permanent restrictions  | 39              | 137            |
| <b>Net cash provided by financing activities</b>  | <b>39</b>       | <b>137</b>     |
| Net decrease in cash and cash equivalents   | (34,341)        | (1,387)        |
| Cash and cash equivalents, beginning of year  | 142,146         | 143,533        |
| Cash and cash equivalents, end of year  | \$ 107,805      | \$ 142,146     |
| Supplemental data:  |                 |                |
| Noncash investing and financing activities:   |                 |                |
| Contributions of securities   | \$ 6,592        | \$ 2,781       |
| Contribution of limited partnership interest  | \$ 19           | \$ -           |
| Other non-cash contributions  | \$ 406          | \$ -           |
| Grant of real estate  | \$ 477          | \$ 78          |

See Notes to Consolidated Financial Statements.

## Communities Foundation of Texas

### Notes to Consolidated Financial Statements

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#### 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 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 supporting 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 consolidated 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 investments and the calculation of assets 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.

## Communities Foundation of Texas

### Notes to Consolidated Financial Statements

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#### 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 estimated.

#### 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 consolidated 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 consolidated 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 funds of funds and pooled equity funds is based upon the net asset value provided by the external investment managers as of June 30, 2011 and 2010. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value (see Note 2).

#### 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. Improvements to real estate are depreciated on a straight-line basis over life of the improvements. Depreciation expense related to real estate investments was approximately \$1,018,000 and \$992,000 for the years ended June 30, 2011 and 2010, respectively.

#### Financial Instruments with Off-Balance Sheet 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.



## Communities Foundation of Texas

### Notes to Consolidated Financial Statements

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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 consolidated statement 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.

#### Grants

Grants are recorded as expense when they are approved by the Foundation Officers for payment and all conditions of the grant have been met by the grantee. The Board of Trustees ratifies grants at their quarterly meeting.

#### 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, 2011 and 2010.

## Communities Foundation of Texas

### Notes to Consolidated Financial Statements

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Financial Accounting Standards Board (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. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2007.

#### Net Asset Classification

The Board of Trustees, on the advice of legal counsel, has determined that the majority of the Foundation's endowment funds meet the definition of endowment funds under the Uniform Prudent Management of Institutional Funds Act (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 Trustees has the ability to distribute as 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 Trustees has determined that all endowment 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 received 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 Foundation's investment and spending policies are 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.

## Communities Foundation of Texas

### Notes to Consolidated Financial Statements

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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.

#### Reclassifications

Certain fiscal year 2010 assets and expenses have been reclassified to be in conformity with the 2011 presentation, with no effect on the change in net assets previously reported.

#### Subsequent Event Review

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 30, 2011, the date on which the financial statements were available to be issued.

### **Note 2. Investments**

The fair value of investments at June 30, 2011 and 2010 are as follows (in thousands):

| <u>Investment Type</u>              | <u>2011</u>       | <u>2010</u>       |
|-------------------------------------|-------------------|-------------------|
| Government securities               | \$ 62,451         | \$ 52,357         |
| Corporate bonds                     | 53,029            | 62,942            |
| Equities                            | 194,689           | 147,827           |
| Mutual funds                        | 25,489            | 44,982            |
| Pooled equity funds                 | 198,042           | 135,705           |
| Fund of funds                       | 18,918            | 18,839            |
| Real estate investment trust (REIT) | 17,980            | 14,835            |
| Other                               | -                 | 630               |
|                                     | <u>\$ 570,598</u> | <u>\$ 478,117</u> |

Investment income consisted of approximately \$14,582,000 and \$13,628,000 of interest and dividends and \$475,000 and \$305,000 of income on other investments for the years ended June 30, 2011 and 2010, respectively.

## Communities Foundation of Texas

### Notes to Consolidated Financial Statements

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#### Note 3. Headquarters and Equipment

Headquarters and equipment as of June 30, 2011 and 2010 are summarized as follows (in thousands):

|  | <u>2011</u>      | <u>2010</u>      |
|--|------------------|------------------|
| Land   | \$ 2,979         | \$ 2,979         |
| Building                                       | 19,164           | 18,967           |
| Furniture                                      | 1,810            | 1,180            |
| Office equipment                               | 310              | 294              |
| Computer equipment and software                | 1,845            | 1,787            |
|  | <u>26,108</u>    | <u>25,207</u>    |
| Less accumulated depreciation and amortization | <u>(8,058)</u>   | <u>(6,312)</u>   |
| Net headquarters and equipment                 | <u>\$ 18,050</u> | <u>\$ 18,895</u> |

Depreciation expense of approximately \$1,746,000 and \$802,000 was recorded as of June 30, 2011 and June 30, 2010, respectively

#### Note 4. Grants Payable

Grants approved and committed for future payment are payable in the following fiscal years ending June 30:

|  |                  |
|--|------------------|
| 2012   | \$ 13,848        |
| 2013   | 8,138            |
| 2014   | 7,224            |
| 2015   | 1,141            |
| 2016   | 426              |
| Thereafter   | 279              |
|  | <u>31,056</u>    |
| Less: present value discount (discounted at various rates) | <u>(1,377)</u>   |
|  | <u>\$ 29,679</u> |

Conditional grants were approximately \$8,695,000 and \$10,735,000 at June 30, 2011 and 2010, respectively, and are not recorded as expense until the conditions are met by the grantee.

**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 consolidated statement of activities as a temporarily restricted contribution in the period the trust is established. Such contributions totaled approximately \$0 and \$6,000 for the years ended June 30, 2011 and 2010, respectively. Assets held in the charitable remainder trusts are recorded in investments at fair value in the Foundation's consolidated statement of financial position and totaled approximately \$7,221,000 and \$7,614,000 at June 30, 2011 and 2010, respectively. The present value of the estimated future payments to designated beneficiaries other than the Foundation is recorded as a liability equal to the time value of the expected future distributions in the accompanying consolidated statement of financial position and was approximately \$1,833,000 and \$1,907,000 at June 30, 2011 and 2010, respectively. 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.

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. Contributions recognized for the fiscal years ending June 30, 2011 and 2010 was \$100,000 and \$300,000, respectively. Liabilities have been established for amounts due to the annuitant and other charities. These liabilities totaled approximately \$316,000 and \$250,000 at June 30, 2011 and 2010, respectively.

The Foundation is also a beneficiary of five charitable remainder trusts held by banks. The total present value of the future benefits expected to be received as of June 30, 2011 and 2010 from the trusts amounted to approximately \$4,080,000 and \$3,034,000. The change in valuation of the trusts is recorded annually as a change in value of split-interest agreements in the accompanying consolidated statement of activities.

**Note 6. Funds Held for Others**

The Foundation receives, invests and distributes assets under certain agency arrangements with various not-for-profit organizations. The related amounts received but not yet distributed totaled approximately \$32,724,000 and \$30,606,000 at June 30, 2011 and 2010, respectively.

**Note 7. Net Assets**

Included in unrestricted net assets are approximately \$252,816,000 and \$236,855,000 of donor-advised funds as of June 30, 2011 and 2010, 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 \$117,308,000 and \$95,960,000 consist of funds available for grant recipients as originally designated by donors of \$14,215,000 and \$9,479,000 and charitable remainder trusts totaling \$5,387,000 and \$5,707,000 at June 30, 2011 and 2010, respectively.

Permanently restricted net assets include donations that the donor intended to remain in perpetuity.

**Communities Foundation of Texas**

**Notes to Consolidated Financial Statements**

Endowment net asset composition by type of fund as of June 30, 2011 and 2010 is summarized below (in thousands):

|                                    | Unrestricted     | Temporarily Restricted | Permanently Restricted | Total             |
|------------------------------------|------------------|------------------------|------------------------|-------------------|
| <b>June 30, 2011:</b>              |                  |                        |                        |                   |
| <b>Donor-restricted endowments</b> | \$ -             | \$ 97,706              | \$ 7,230               | \$ 104,936        |
| <b>Board-designated endowment</b>  | <b>20,432</b>    | -                      | -                      | <b>20,432</b>     |
|                                    | <b>\$ 20,432</b> | <b>\$ 97,706</b>       | <b>\$ 7,230</b>        | <b>\$ 125,368</b> |
| <b>June 30, 2010:</b>              |                  |                        |                        |                   |
| Donor-restricted endowments        | \$ -             | \$ 80,774              | \$ 7,191               | \$ 87,965         |
| Board-designated endowment         | 17,771           | -                      | -                      | 17,771            |
|                                    | <b>\$ 17,771</b> | <b>\$ 80,774</b>       | <b>\$ 7,191</b>        | <b>\$ 105,736</b> |

The changes in endowment net assets for the fiscal years ended June 30, 2011 and 2010 is summarized below (in thousands):

|   | Unrestricted     | Temporarily Restricted | Permanently Restricted | Total             |
|---|------------------|------------------------|------------------------|-------------------|
| Endowment net assets at June 30, 2009             | \$ 16,218        | \$ 83,753              | \$ 7,054               | \$ 107,025        |
| Investment income                                 | 413              | 2,749                  | -                      | 3,162             |
| Net gain (both realized and unrealized)           | 2,054            | 12,155                 | -                      | 14,209            |
| Total investment return                           | 2,467            | 14,904                 | -                      | 17,371            |
| Contributions                                     | -                | 4,595                  | 137                    | 4,732             |
| Redesignation of assets by donors                 | -                | (14,121)               | -                      | (14,121)          |
| Appropriation of endowment assets for expenditure | (914)            | (8,357)                | -                      | (9,271)           |
| Endowment net assets at June 30, 2010             | 17,771           | 80,774                 | 7,191                  | 105,736           |
| Investment income                                 | 349              | 2,240                  | -                      | 2,589             |
| Net gains (both realized and unrealized)          | 3,164            | 16,979                 | -                      | 20,143            |
| Total investment return                           | 3,513            | 19,219                 | -                      | 22,732            |
| Contributions                                     | -                | 2,853                  | 39                     | 2,892             |
| Appropriation of endowment assets for expenditure | (852)            | (5,140)                | -                      | (5,992)           |
| Endowment net assets at June 30, 2011             | <b>\$ 20,432</b> | <b>\$ 97,706</b>       | <b>\$ 7,230</b>        | <b>\$ 125,368</b> |

## Communities Foundation of Texas

### Notes to Consolidated Financial Statements

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#### 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):

|                                | <u>2011</u>     | <u>2010</u>       |
|--------------------------------|-----------------|-------------------|
| Benefit obligation             | \$ 2,936        | \$ 2,854          |
| Plan assets at fair value      | <u>2,161</u>    | <u>1,719</u>      |
| Funded status                  | <u>\$ (775)</u> | <u>\$ (1,135)</u> |
| Accumulated benefit obligation | \$ 2,936        | \$ 2,854          |
| Employer contributions         | 174             | 75                |
| Benefits paid                  | (66)            | (59)              |

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

|  | <u>2011</u>   | <u>2010</u>     |
|--|---------------|-----------------|
| Accrued liabilities and other payables | <u>\$ 775</u> | <u>\$ 1,135</u> |

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

|   | <u>2011</u>  | <u>2010</u>   |
|---|--------------|---------------|
| Interest cost   | \$ 141       | \$ 159        |
| Amortization of prior service cost and net loss                           | 40           | 35            |
| Expected return on plan assets  | (139)        | (135)         |
| Net settlement loss   | -            | 53            |
| Total recognized in net periodic pension cost and unrestricted net assets | <u>\$ 42</u> | <u>\$ 112</u> |

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 \$26,000.

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**Notes to Consolidated Financial Statements**

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The following assumptions were used in accounting for the plan:

|  | <u>2011</u>  | <u>2010</u> |
|--|--------------|-------------|
| Weighted-average assumptions used to determine benefit obligations at:                   |              |             |
| Discount rate  | <b>5.00%</b> | 5.00%       |
| Rate of compensation increase  | <b>N/A</b>   | N/A         |
| Weighted-average assumptions used to determine net periodic benefit cost for year ended: |              |             |
| Discount rate  | <b>5.00%</b> | 6.25%       |
| Expected return on plan assets   | <b>8.0%</b>  | 8.0%        |
| Rate of compensation increase  | <b>N/A</b>   | N/A         |

The total expected rate 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.

|   | <u>2011</u>   | <u>2010</u> |
|---|---------------|-------------|
| <u>Estimated future benefit payments</u>    |               |             |
| Next fiscal year (Year 1)                   | <b>\$ 162</b> | \$ 68       |
| Year 2                                      | <b>162</b>    | 162         |
| Year 3                                      | <b>184</b>    | 162         |
| Year 4                                      | <b>240</b>    | 184         |
| Year 5                                      | <b>244</b>    | 239         |
| Years 6-10                                  | <b>1,204</b>  | 1,206       |
| Estimated contributions in next fiscal year | <b>145</b>    | 100         |



**Communities Foundation of Texas**

**Notes to Consolidated Financial Statements**

The fair values of the Foundation's Pension Plan assets at June 30, 2011, by asset class are as follows:

| Asset Class       | Fair Value Measurements at June 30, 2011 |   |  |
|-------------------|--|---|--|
|                   | Total                                    | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) |
| Cash              | \$ 88                                    | \$ 88   | \$ -   |
| Equity securities | 1,308                                    | 1,308   | -  |
| Debt securities   | 765                                      | -   | 765  |
|                   | <u>\$ 2,161</u>                          | <u>\$ 1,396</u>   | <u>\$ 765</u>                                    |

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 \$215,000 in 2011 and \$187,000 in 2010.

**Note 9. Concentrations of Credit**

At June 30, 2011, the Foundation, including cash and cash equivalents held at Bank of America for the W.W. Caruth, Jr. Foundation, maintained uninsured balances of cash and cash equivalents of approximately \$12,188,000 with financial institutions and approximately \$95,867,000 invested in short-term securities and money market funds. At June 30, 2010, the Foundation maintained uninsured balances of cash and cash equivalents of approximately \$6,541,000 with financial institutions and approximately \$120,471,000 invested in short-term securities and money market funds. The Foundation monitors these institutions and does not anticipate any losses related to these concentrations.

**Note 10. Contributions Receivable**

Contributions receivable at June 30, 2011 represent unconditional promises to give with payments due in future periods. At June 30, 2011, contributions receivable are expected to be paid as follows:

|  |                  |
|--|------------------|
| 2012   | \$ 5,012         |
| 2013   | 5,175            |
| 2014   | 5,175            |
| 2015   | 5,050            |
|  | <u>20,412</u>    |
| Less: present value discount (discounted at various) | <u>(1,147)</u>   |
|  | <u>\$ 19,265</u> |

As of June 30, 2011 and June 30, 2010, conditional promises to give were approximately \$8,171,000 and \$23,029,000, respectively. These contributions will be recorded as revenue when all conditions have been met.

**Note 11. Fair Value Measurements**

As described in Note 1, the Foundation records its investments in marketable securities, real estate investments trusts, alternative investments and charitable remainder trusts at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. 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). 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 Foundation has the ability to access at the measurement date. The quoted price for these investments is not adjusted, even in situations where the Foundation holds a large position and a sale could reasonably be expected to impact the quoted price. The types of investments included in Level 1 include listed equities and listed derivatives.

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

Level 3 – Inputs that 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 certain general and limited partnership interests in corporate private equity and real estate funds, debt funds, hedge funds, and funds of funds.

All transfers between fair value hierarchy levels are recognized by the Foundation at the end of each reporting period.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Foundation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Foundation's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. For the year ended June 30, 2011, there were no significant transfers among levels 1, 2, and 3.

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### Notes to Consolidated Financial Statements

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The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in those instruments.

Indicative quotes or evaluations from brokers and pricing services are not necessarily determinative of fair value. The Foundation considers whether the quotes represent an exit price and which level in the hierarchy they fall. In evaluating whether a quote is representative of fair value, the Foundation considers the specific facts and circumstances of the position and quote. This consideration may include factors such as 1) the level of current trading activity, 2) current bid ask spreads relative to previous spreads, 3) dispersion in the quotes received, 4) whether the quotes represent forced transactions, 5) whether the quotes are indicative or binding, 6) whether the quotes vary from recent transaction prices, and 7) whether the quotes are developed by the third party based on relevant observable inputs. The Foundation may challenge the quotes provided if the Foundation does not believe that the quotes represent an appropriate value based on other information such as recent transactions or values from other sources or methods.

On an as needed basis, the Foundation will consider backtesting, or a comparison of quotes obtained to actual transaction data. The Foundation may also consider assessing the valuation methodology used by the third party to develop the quote and assess the observability and significance of the inputs used, on an as needed basis.

Indicative quotes will be considered Level 3 absent evidence to show that the quote represents observable data. For example, evidence to show that the quote is a Level 2 input might include 1) the quote is comparable to a recent transaction, 2) backtesting demonstrates that quotes have historically been close to transactions, or 3) the quote is developed by the third party using observable inputs.

It is important to note that a quote or multiple quotes may still be representative of fair value even if they fall into Level 3 of the fair value hierarchy. Therefore, the Foundation may use a quote or quotes if it determines that they represent fair value if it does not have information to demonstrate that it is a Level 2.

The determination of fair value using these methodologies takes into account consideration of a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. These valuation methodologies involve a significant degree of judgment by the Foundation.

Because the Foundation is under no compulsion to dispose of its portfolio investments, the estimated values, as determined above, may not reflect amounts that could be realized upon immediate sale nor amounts that ultimately may be realized. Because of the inherent uncertainty of the valuation, those estimated values may differ significantly from the values that would have been used had a ready market for those securities existed, and the differences could be material.

A description of the valuation techniques applied to the Foundation's major categories of assets measured at fair value on a recurring basis follows.

*Cash equivalents* – Cash equivalents primarily include time deposits, certificates of deposit, commercial paper, high-quality money market funds, and all highly liquid instruments with original maturities of three months or less. Time deposits and certificates of deposit included in cash equivalents are valued at amortized cost, which approximates fair value due to maturity dates less than one year. These are included within cash equivalents in Level 2. Commercial paper included in cash equivalents is valued using broker quotes that utilize observable market inputs and are included within cash equivalents in Level 2. Money market mutual funds are valued at the closing price reported by the funds sponsor and are included in Level 1 because these funds are composed of short term securities and can be liquidated in several days or less.

## Communities Foundation of Texas

### Notes to Consolidated Financial Statements

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*Equity securities (common & preferred stock) and mutual funds* – Securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy.

*Corporate bonds* – The fair value of corporate bonds is estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, fundamental data relating to the issuer, and credit default swap spreads adjusted for any basis difference between cash and derivative instruments. Although most corporate bonds are categorized in Level 2 of the fair value hierarchy, in instances where lower relative weight is placed on transaction prices, quotations, or similar observable inputs, they can be categorized as Level 3.

*Government securities* – U.S. Government securities are normally valued using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data. Certain securities are valued principally using dealer quotations. U.S. Government securities are categorized in Level 1 or Level 2 of the fair value hierarchy depending on the inputs used and market activity levels for specific securities.

*Pooled equity funds, fund of funds and REITs* – Investments for which prices are not observable are generally fund of funds, pooled funds, or REITs that invest in equity and debt securities or partnerships including real estate partnerships. Fair value of these investments is based on Level 2 and 3 inputs and is determined by net asset values per share reported by investment managers. In the absence of a principal market (public market), the Foundation determines the most advantageous market in which the Foundation would sell their investment. Typically, the Foundation expects to exit their investment through a sale of the shares in the investment. Valuations of the underlying portfolio companies are completed to compute the fair value the Foundation will receive upon such a sale. Generally, these valuations are derived by taking the net asset value of the Company and calculating the net asset value per share. Investments may also be valued at cost for a period of time after an acquisition as the best indicator of fair value.

Depending on the redemption options available, as a practical expedient it may be possible that for these types of investments, the reported net asset value (NAV) represents fair value based on observable data such as ongoing redemption and/or subscription activity. In these cases, the NAV is considered as a Level 2 input. However, certain funds may provide the Foundation with the ability to suspend or postpone redemption (a "gate"), or a "lock-in period" upon initial subscription, within which the Foundation may not redeem without incurring a penalty. In the case of the imposition of a gate, if a "lock-in period" in excess of 3 months is remaining at the consolidated statement of financial position date, or if the Foundation may not redeem its holding in the fund within 3 months or less, the Foundation's ability to validate or verify the NAV through redeeming is impaired, and the investment is generally classified as Level 3.

If the fair value of private equity investments held cannot be valued by reference to observable valuation measures for comparable companies, then the primary analytical method used to estimate the fair value of such private equity investments is the discounted cash flow method. A sensitivity analysis is applied to the estimated future cash flows using various factors depending on the investment, including assumed growth rate (in cash flows), capitalization rates (for determining terminal values) and appropriate discount rates to determine a range of reasonable values. The valuation based on the inputs determined to be the most probable is used as the fair value of the investment.

The determination of fair value using these methodologies takes into account consideration of a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. These valuation methodologies involve a significant degree of judgment by management.

## Communities Foundation of Texas

### Notes to Consolidated Financial Statements

*Unitrusts receivable* – Annually, the Foundation receives broker statements from the trustee listing out the current market value of the trusts' assets. The trusts' assets are invested in securities traded on a national securities exchange. The present value of these trusts is determined using the methods of Treasury Regulation 1.170A-7(a) and Internal Revenue Service Publication 1457. The calculation utilizes the current ages of the lifetime beneficiary, the applicable federal rate, frequency of payments, and the payment amount, in determining the receivable to the Foundation. The Foundation utilizes outside vendor software to construct these calculations.

The following table represents the fair value hierarchy for those assets reported on the consolidated statement of financial position at their fair value on a recurring basis as of June 30, 2011 by level (in thousands):

| Assets Measured at Fair Value June 30               | Fair Value Measurements at Reporting Date Using                |   |                | Significant Unobservable Inputs (Level 3) |
|---|--|---|----------------|---|
|   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |                |   |
| <b>June 30, 2011</b>                                |  |   |                |   |
| <b>Measured on a recurring basis:</b>               |  |   |                |   |
| <b>Assets:</b>                                      |  |   |                |   |
| Cash equivalents                                    | \$ 96,819  | \$ 77,967                                     | \$ 18,852      | \$ -                                      |
| Government securities                               | 62,451   | 22,957  | 39,494         | -   |
| Corporate bonds                                     | 53,029   | -   | 53,029         | -   |
| <b>Equities:</b>                                    |  |   |                |   |
| Energy  | 23,393   | 23,393  | -              | -   |
| Materials   | 9,643  | 9,643   | -              | -   |
| Industrial  | 21,407   | 21,407  | -              | -   |
| Consumer discretionary                              | 27,530   | 27,530  | -              | -   |
| Consumer staples                                    | 14,260   | 14,260  | -              | -   |
| Health care   | 18,138   | 18,138  | -              | -   |
| Financial   | 22,449   | 22,449  | -              | -   |
| Information technology                              | 31,076   | 31,076  | -              | -   |
| Telecom   | 3,713  | 3,713   | -              | -   |
| Utilities   | 2,701  | 2,701   | -              | -   |
| Other   | 19,209   | 19,209  | -              | -   |
| <b>Total equities</b>                               | <b>193,519</b>   | <b>193,519</b>                                | <b>-</b>       | <b>-</b>                                  |
| Mutual funds  | 25,489   | 25,489  | -              | -   |
| <b>Pooled equity funds:</b>                         |  |   |                |   |
| Russell Index Funds                                 | 55,693   | -   | 55,693         | -   |
| Equity funds  | 5,380  | -   | 5,380          | -   |
| International funds                                 | 17,200   | -   | 17,200         | -   |
| Emerging markets funds                              | 7,990  | -   | 7,990          | -   |
| Multi-asset fund                                    | 111,779  | -   | 111,779        | -   |
| <b>Total pooled equity funds</b>                    | <b>198,042</b>   | <b>-</b>                                      | <b>198,042</b> | <b>-</b>                                  |
| Partnerships  | 2,906  | -   | 2,906          | -   |
| Fund of funds                                       | 18,919   | -   | 14,035         | 4,884                                     |
| REITs   | 16,980   | 1,051   | 15,929         | -   |
| Beneficial interests in charitable remainder trusts | 4,080  | -   | -              | 4,080                                     |

## Communities Foundation of Texas

### Notes to Consolidated Financial Statements

The following table represents the fair value hierarchy for those assets reported on the consolidated statement of financial position at their fair value on a recurring basis as of June 30, 2010 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) |
| <u>June 30, 2010</u>                                |   |  |   |   |
| Measured on a recurring basis:                      |   |  |   |   |
| Assets:   |   |  |   |   |
| Cash equivalents                                    | \$ 38,642                                       | \$ 16,311  | \$ 22,331                                     | \$ -                                      |
| Government securities                               | 52,357  | 23,202   | 29,155  | -   |
| Corporate bonds                                     | 62,942  | -  | 62,942  | -   |
| Equities:   |   |  |   |   |
| Energy  | 18,788  | 18,788   | -   | -   |
| Materials   | 7,433   | 7,433  | -   | -   |
| Industrial  | 15,494  | 15,494   | -   | -   |
| Consumer discretionary                              | 15,691  | 15,691   | -   | -   |
| Consumer staples                                    | 19,576  | 19,576   | -   | -   |
| Health care   | 16,513  | 16,513   | -   | -   |
| Financial   | 19,687  | 19,687   | -   | -   |
| Information technology                              | 25,353  | 25,353   | -   | -   |
| Telecom   | 4,901   | 4,901  | -   | -   |
| Utilities   | 2,724   | 2,724  | -   | -   |
| Other   | 506   | 506  | -   | -   |
| Total equities                                      | 146,666   | 146,666  | -   | -   |
| Mutual funds  | 44,982  | 44,982   | -   | -   |
| Pooled equity funds:                                |   |  |   |   |
| Russell Index Funds                                 | 56,257  | -  | 56,257  | -   |
| Equity funds  | 7,053   | -  | 7,053   | -   |
| International funds                                 | 17,994  | -  | 17,994  | -   |
| Emerging markets funds                              | 8,104   | -  | 8,104   | -   |
| Multi-asset fund                                    | 46,297  | -  | 46,297  | -   |
| Total pooled equity funds                           | 135,705   | -  | 135,705                                       | -   |
| Partnerships  | 1,752   | -  | 1,752   | -   |
| Fund of funds                                       | 18,839  | -  | 14,276  | 4,563                                     |
| REITs   | 12,790  | 30   | 12,760  | -   |
| Other investments                                   | 630   | -  | 630   | -   |
| Beneficial interests in charitable remainder trusts | 3,034   | -  | -   | 3,034                                     |

## Communities Foundation of Texas

### Notes to Consolidated Financial Statements

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

|   | Other<br>Investments | Equities    | Pooled<br>Equity<br>Funds | REITs       | Fund of<br>Funds | Beneficial<br>Interest in<br>Charitable<br>Remainder<br>Trusts | Total           |
|---|----------------------|-------------|---------------------------|-------------|------------------|--|-----------------|
| Balance, June 30, 2009                              | \$ 788               | \$ 1,163    | \$ 121,904                | \$ 11,526   | \$ 9,152         | \$ 2,637   | \$ 147,170      |
| Transfer from Level 3 to<br>Level 2                 | -                    | -           | (82,453)                  | (11,018)    | (2,114)          | -  | (95,585)        |
| Change in unrealized gain/<br>(loss) on investments | (74)                 | -           | 7,582                     | 4           | 224              | 397  | 8,133           |
| Investment purchases                                | 390                  | 83          | -                         | -           | 909              | -  | 1,382           |
| Investment sales                                    | -                    | (224)       | (17,691)                  | (15)        | (3,608)          | -  | (21,538)        |
| Transfers in  | -                    | 2           | 633                       | -           | -                | -  | 635             |
| Transfers out                                       | (1,104)              | (1,024)     | (29,975)                  | (497)       | -                | -  | (32,600)        |
| Balance, June 30, 2010                              | -                    | -           | -                         | -           | 4,563            | 3,034  | 7,597           |
| Realized gain/(loss)                                | -                    | -           | -                         | -           | 59               | -  | 59              |
| Change in unrealized gain/<br>(loss) on investments | -                    | -           | -                         | -           | 399              | 1,046  | 1,445           |
| Investment purchases                                | -                    | -           | -                         | -           | 4,649            | -  | 4,649           |
| Investment sales                                    | -                    | -           | -                         | -           | (4,786)          | -  | (4,786)         |
| <b>Balance, June 30, 2011</b>                       | <b>\$ -</b>          | <b>\$ -</b> | <b>\$ -</b>               | <b>\$ -</b> | <b>\$ 4,884</b>  | <b>\$ 4,080</b>  | <b>\$ 8,964</b> |

The total change in unrealized appreciation (depreciation) included in the consolidated statement of activities attributable to Level 3 investments still held at June 30, 2011 includes:

| Fund of Funds | Beneficial<br>Interest in<br>Charitable<br>Remainder<br>Trusts |
|---------------|--|
| \$ 191,533    | \$ 456   |

## Communities Foundation of Texas

### Notes to Consolidated Financial Statements

The following table provides additional information that will help describe the nature and risk of the investments held at June 30, 2011 by major class:

|                                       | Fair Value<br>(In Thousands) | Redemption<br>Frequency<br>(if Currently<br>Eligible) | Redemption<br>Notice Period |
|---------------------------------------|------------------------------|---|-----------------------------|
| Russell index funds <sup>(a)</sup>    | \$ 55,693                    | Daily, Weekly,<br>Monthly, Bi-Monthly                 | 3-30 days                   |
| Equity funds <sup>(b)</sup>           | 5,380                        | Daily, Monthly  | 3-30 days                   |
| International funds <sup>(b)</sup>    | 17,200                       | Weekly, Monthly                                       | 3-30 days                   |
| Emerging markets funds <sup>(a)</sup> | 7,990                        | Monthly, Bi-Monthly                                   | 7-15 days                   |
| Multi-asset funds <sup>(c)</sup>      | 111,779                      | Daily   | 1 day                       |
| Partnerships <sup>(d)</sup>           | 2,906                        | Monthly, Quarterly                                    | 5-60 days                   |
| Fund of Funds <sup>(d)</sup>          | 18,919                       | Daily, Quarterly                                      | 3-100 days                  |
| REITs <sup>(e)</sup>                  | 15,929                       | Bi-Weekly   | 15 days                     |
|                                       | <u>\$ 235,796</u>            |   |                             |

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

|                                       | Fair Value<br>(In Thousands) | Redemption<br>Frequency<br>(if Currently<br>Eligible) | Redemption<br>Notice Period |
|---------------------------------------|------------------------------|---|-----------------------------|
| Russell index funds <sup>(a)</sup>    | \$ 56,257                    | Daily, Weekly,<br>Monthly, Bi-Monthly                 | 3-30 days                   |
| Equity funds <sup>(b)</sup>           | 7,053                        | Daily, Monthly  | 3-30 days                   |
| International funds <sup>(b)</sup>    | 17,994                       | Weekly, Monthly                                       | 3-30 days                   |
| Emerging markets funds <sup>(a)</sup> | 8,104                        | Monthly, Bi-Monthly                                   | 7-15 days                   |
| Multi-asset funds <sup>(c)</sup>      | 46,297                       | Daily   | 1 day                       |
| Partnerships <sup>(d)</sup>           | 1,752                        | Monthly, Quarterly                                    | 5-60 days                   |
| Fund of Funds <sup>(d)</sup>          | 18,839                       | Daily, Quarterly                                      | 3-100 days                  |
| REITs <sup>(e)</sup>                  | 12,760                       | Bi-Weekly   | 15 days                     |
|                                       | <u>\$ 169,056</u>            |   |                             |

- (a) This class includes commingled accounts that invest in public equities which are managed as a passive equity index and managers that are hired to buy and sell equity securities which are measured against an equity benchmark. No accounts have short positions.
- (b) This class includes commingled accounts that invest only in public equities. No accounts have short positions. The investments are managed as a passive equity index.
- (c) This class contains managers that are hired to buy and sell equity securities and are measured against an equity benchmark. No accounts have short positions.



## Communities Foundation of Texas

### Notes to Consolidated Financial Statements

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- (d) This class contains managers that are hired to buy and sell equity securities and are measured against an equity benchmark. This class also 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 1.07% of the footnote value were not available to be redeemed as of June 30, 2010, because of lockup periods that do not allow redemption for 6 months after June 30, 2010. As of June 30, 2011, investments representing approximately 0.77% of the footnote value were not available to be redeemed because of lockup periods. No accounts have short positions.
  
- (e) 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.



## Independent Auditor's Report on Supplemental Information

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

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

*McGladrey & Pullen, LLP*

Dallas, Texas  
September 30, 2011

**Communities Foundation of Texas**

**Consolidating Statement of Financial Position  
June 30, 2011  
(In thousands)**

| <b>ASSETS</b>                           | Communities<br>Foundation of<br>Texas, Inc. and<br>Consolidated<br>Subsidiaries | W.W.<br>Caruth, Jr.<br>Foundation | Eliminations    | Total             |
|---|---|-----------------------------------|-----------------|-------------------|
| Cash and cash equivalents               | \$ 92,443   | \$ 15,362                         | \$ -            | \$ 107,805        |
| Investment securities                   | 331,405   | 239,193                           | -               | 570,598           |
| Other assets                            | 61,850  | 29,168                            | (314)           | 90,704            |
| <b>Total assets</b>                     | <b>\$ 485,698</b>   | <b>\$ 283,723</b>                 | <b>\$ (314)</b> | <b>\$ 769,107</b> |
| <b>LIABILITIES AND NET ASSETS</b>       |   |                                   |                 |                   |
| Grants payable                          | \$ 29,679   | \$ -                              | \$ -            | \$ 29,679         |
| Other liabilities                       | 36,742  | 314                               | (314)           | 36,742            |
| Net assets:                             |   |                                   |                 |                   |
| Unrestricted                            | 274,307   | 283,409                           | -               | 557,716           |
| Board designated endowments             | 20,432  | -                                 | -               | 20,432            |
| Temporarily restricted                  | 117,308   | -                                 | -               | 117,308           |
| Permanently restricted                  | 7,230   | -                                 | -               | 7,230             |
| <b>Total net assets</b>                 | <b>419,277</b>  | <b>283,409</b>                    | <b>-</b>        | <b>702,686</b>    |
| <b>Total liabilities and net assets</b> | <b>\$ 485,698</b>   | <b>\$ 283,723</b>                 | <b>\$ (314)</b> | <b>\$ 769,107</b> |

**Communities Foundation of Texas**

**Consolidating Statement of Activities  
June 30, 2011  
(In thousands)**

|   | Communities<br>Foundation of<br>Texas, Inc. and<br>Consolidated<br>Subsidiaries | W.W.<br>Caruth, Jr.<br>Foundation | Eliminations   | Total          |
|---|---|-----------------------------------|----------------|----------------|
| Changes in unrestricted net assets:           |   |                                   |                |                |
| Revenues and gains:                           |   |                                   |                |                |
| Contributions                                 | \$ 38,662   | \$ -                              | \$ (8,427)     | \$ 30,235      |
| Investment income                             | 3,028   | 7,248                             |                | 10,276         |
| Other income and gains                        | 25,028  | 39,129                            | (1,215)        | 62,942         |
|   | 66,718  | 46,377                            | (9,642)        | 103,453        |
| Net assets released from restrictions         | 31,251  | -                                 | -              | 31,251         |
| <b>Total unrestricted revenues</b>            | <b>97,969</b>   | <b>46,377</b>                     | <b>(9,642)</b> | <b>134,704</b> |
| Grants  | 55,784  | 8,427                             | (8,427)        | 55,784         |
| Other expenses                                | 18,826  | 5,790                             | (1,215)        | 23,401         |
|   | 74,610  | 14,217                            | (9,642)        | 79,185         |
| Increase in unrestricted net assets           | 23,359  | 32,160                            | -              | 55,519         |
| Increase in temporarily restricted net assets | 21,348  | -                                 | -              | 21,348         |
| Increase in permanently restricted net assets | 39  | -                                 | -              | 39             |
| Increase in net assets                        | 44,746  | 32,160                            | -              | 76,906         |
| Net assets, beginning of year                 | 374,531   | 251,249                           | -              | 625,780        |
| Net assets, end of year                       | \$ 419,277  | \$ 283,409                        | \$ -           | \$ 702,686     |