

Consolidated Financial Statements

**COMMUNITIES FOUNDATION
OF TEXAS**

June 30, 2012

Consolidated Financial Statements

COMMUNITIES FOUNDATION OF TEXAS

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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 statement of financial position of Communities Foundation of Texas (the "Foundation") as of June 30, 2012 and the related consolidated statements of activities and cash flows for the year 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Communities Foundation of Texas as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note M to the financial statements, the Foundation consolidated two supporting organizations with combined net assets of \$84,240,000 at July 1, 2011.

Cole & Reed P.C.

Oklahoma City, Oklahoma
April 4, 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

ASSETS	<i>(In thousands)</i>
Cash and cash equivalents	\$ 111,110
Investments <i>(Note B)</i>	632,842
Interest, dividends and other receivables	3,265
Contributions receivable <i>(Note J)</i>	19,221
Beneficial interest in charitable remainder trusts <i>(Note E)</i>	4,663
Real estate held for investment	55,591
Limited partnership interests	7,923
Cash surrender value of life insurance policies	346
Headquarters and equipment, net <i>(Note C)</i>	17,218
Other assets	<u>599</u>
TOTAL ASSETS	<u>\$ 852,778</u>
LIABILITIES AND NET ASSETS	
Accrued liabilities and other payables <i>(Note H)</i>	\$ 2,969
Grants payable <i>(Note D)</i>	23,835
Funds held for others <i>(Note F)</i>	30,478
Deferred revenue <i>(Note E)</i>	524
Liabilities associated with split-interest agreements <i>(Note E)</i>	<u>3,854</u>
TOTAL LIABILITIES	<u>61,660</u>
NET ASSETS <i>(Note G)</i>	
Unrestricted	651,668
Unrestricted, board-designated endowments	<u>19,688</u>
Total Unrestricted	671,356
Temporarily restricted	113,731
Permanently restricted	<u>6,031</u>
TOTAL NET ASSETS	<u>791,118</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 852,778</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

COMMUNITIES FOUNDATION OF TEXAS

Year Ended June 30, 2012

	<i>(In thousands)</i>				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>		<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND GAINS					
Contributions	\$ 51,928	\$ 10,476	\$ 193	\$	62,597
Investment income, net <i>(Note B)</i>	11,307	1,466	-	-	12,773
Net realized gain on sales of investments	8,023	1,404	-	-	9,427
Net unrealized loss on investments	(12,510)	(2,064)	-	-	(14,574)
Change in value of split-interests	(1)	103	-	-	102
Other income (loss)	8,188	(1,648)	-	-	6,540
Reclassifications - Donor directed	(4,688)	6,080	(1,392)	-	-
Net assets released from restrictions	<u>10,116</u>	<u>(10,116)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES AND GAINS	72,363	5,701	(1,199)	-	76,865
GRANTS AND EXPENSES					
Programs:					
Grants	51,068	-	-	-	51,068
Other	6,619	-	-	-	6,619
Supporting activities:					
Administrative expenses:					
Communities Foundation of Texas	5,745	-	-	-	5,745
Supporting Foundations	5,245	-	-	-	5,245
Development	1,696	-	-	-	1,696
Fund management	<u>2,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,300</u>
TOTAL GRANTS AND EXPENSES	<u>72,673</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,673</u>
CHANGE IN NET ASSETS	(310)	5,701	(1,199)	-	4,192
NET ASSETS, BEGINNING OF YEAR					
AS RECLASSIFIED <i>(Note F)</i>					
AND RESTATED <i>(Note M)</i>	<u>671,666</u>	<u>108,030</u>	<u>7,230</u>	<u>-</u>	<u>786,926</u>
NET ASSETS, END OF YEAR	<u>\$ 671,356</u>	<u>\$ 113,731</u>	<u>\$ 6,031</u>	<u>\$</u>	<u>791,118</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

COMMUNITIES FOUNDATION OF TEXAS

Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	<i>(In thousands)</i>
Change in net assets	\$ 4,192
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	2,240
Net unrealized loss on investments	14,574
Net realized gain on sales of investments	(9,427)
Amortization of discounts	123
Permanently restricted contributions	(193)
Noncash grants	190
Noncash contributions	(24,157)
Changes in operating assets and liabilities:	
Decrease in contributions, interest, dividends and other receivables	3,731
Increase in beneficial interest in charitable remainder trusts	(1,475)
Decrease in cash surrender value of life insurance policies	39
Increase in other assets	(21)
Increase in accounts payable and accrued liabilities	810
Decrease in grants payable	(5,149)
Decrease in liabilities associated with funds held for others	(2,246)
Increase in deferred revenue	524
Increase in liabilities associated with split-interest agreements	<u>1,705</u>
NET CASH USED IN OPERATING ACTIVITIES	(14,540)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(270,842)
Proceeds from the sale of investments	280,561
Purchases of real estate held for investment	(164)
Headquarters and equipment purchases	(105)
Proceeds from sale of limited partnerships	<u>213</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	9,663
 CASH FLOWS FROM FINANCING ACTIVITIES	
Contributions received with permanent restrictions	<u>193</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>193</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,684)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>115,794</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 111,110</u>

CONSOLIDATED STATEMENT OF CASH FLOWS--Continued

COMMUNITIES FOUNDATION OF TEXAS

Year Ended June 30, 2012

SUPPLEMENTAL DATA:

Noncash investing and financing activities:

Contributions of securities	<u>\$ 21,397</u>
Contributions of securities and other investment assets	<u>\$ 2,400</u>
Other noncash contributions	<u>\$ 170</u>
Contribution and grant of real estate	<u>\$ 190</u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE A--PURPOSE OF FOUNDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Purpose and Activities: Communities Foundation of Texas (the "Community 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 Community Foundation administers more than 850 funds comprised of donor advised, non-donor advised, trusts and endowment funds established with an instrument of gift. The Community 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 Community Foundation administers the Educate Texas program (formerly the Texas High School Project), a significant program which provides grants and support to Texas schools.

Reporting Entity: The consolidated financial statements include the Community Foundation and the "Supporting Foundations" which include W.W. Caruth, Jr. Foundation, The Nancy Ann and Ray L. Hunt Foundation, and The Ruth Foundation. The Supporting Foundations are consolidated with the Community Foundation in the accompanying financial statements because the Community Foundation has an economic interest in the organizations and controls the affiliated organizations' boards of directors and/or by virtue of common trustees. Also, included in the consolidated financial statements is CFTR 11. The primary purpose of CFTR 11 is to hold and manage real estate properties and the Community Foundation owns 100% of its outstanding stock. The Community Foundation, the Supporting Foundations, and CFTR 11 are collectively referred to as the "Foundation" throughout these financial statements. All significant inter-organization transactions have been eliminated.

Basis of Presentation: The Foundation follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The ASC is the single source of authoritative guidance for accounting principles generally accepted in the United States of America ("U.S. GAAP") for nongovernmental entities. The Foundation's financial statements have been prepared on the accrual basis of accounting and to ensure the observance of limitations and restrictions placed on the use of available resources, the Foundation maintains its accounts in accordance with the principles and practices of fund accounting. As required by the ASC, the accompanying consolidated financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE A--PURPOSE OF FOUNDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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 consolidated financial statements include the fair value of investments and the calculation of assets and liabilities associated with split interest agreements.

Net Asset Classification: As a community foundation, in accordance with United States Treasury Regulations, the Foundation possesses variance power. Variance power is the unilateral right to remove donor-imposed restrictions upon a gift in response to changed circumstances. The Foundation interprets this variance power to apply to time restrictions and endowment restrictions as well as purpose restrictions. This power is exercisable only in narrowly defined circumstances. Since this variance power is incorporated by reference in most gift instruments, the Foundation views its variance power as an explicit expression of donor intent (see Note F).

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 of 2006 ("UPMIFA"). Most of the Foundation's endowment 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 gift, devise, bequest, or fund as the board in its sole discretion shall determine under the Foundation's current spending policy. 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. Generally, if the corpus of a contribution may at some future time become available for spending it is recorded as temporarily restricted. If the corpus never becomes available for spending (i.e., variance power is not specifically incorporated in the gift instrument), it will be reported as permanently restricted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE A--PURPOSE OF FOUNDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Net Asset Classification--Continued: In accordance with UPMIFA, the Foundation 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 Foundation 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 Foundation
- The investment policies of the Foundation

In addition to donor imposed endowment restrictions, all contributions received with donor imposed time restrictions are classified as temporarily restricted until the payments are received unless the respective gift is specifically designated for use in the current period by the donor. Contributions received under split-interest agreements, except for charitable gift annuities, are also classified as temporarily restricted due to the implied time restriction on the use of such assets.

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 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 endowment funds. The current spending policy is to distribute an amount not greater than 5% of the average of the preceding sixteen quarters fund balance.

Contribution Revenue: Contributions are recognized as revenue when they are received or unconditionally promised. Bequests are recognized 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. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value on the gift date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE A--PURPOSE OF FOUNDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Contribution Revenue--Continued: Contributions to be received after one year are recorded at the present value of their estimated future cash flows using a discount rate which is commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in the same net asset class and fund as the original contribution.

The Foundation reports gifts of cash and other assets as restricted support when they are received under gift instruments with donor stipulations that limit their use and/or time restrictions (including implied time restrictions). When a restriction expires, that is, when a stipulated time restriction ends or donor restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Reclassifications-Donor Directed: Generally, reclassifications directed by the donor result from the reclassification of a donor advised fund to a donor-restricted endowment fund. Many of the Foundation's standard donor advised fund agreements, state that upon the passing of the last advisor, the balance of the fund will become a fund of perpetual duration.

Cash Equivalents: Cash equivalents consist of highly liquid investments with an original maturity of three months or less

Beneficial Interest in Charitable Remainder Trusts: Beneficial interest in charitable remainder trusts represents the amount held for the benefit of the Foundation under irrevocable trusts agreement between donors and third party trustees and are carried at fair value in the consolidated statement of financial position (see Note E). The Foundation estimates the fair value of the interest annually and recognizes any changes in the fair value as a change in value of split-interests in the consolidated statement of activities.

Investments: The Foundation records investments in marketable securities and real estate investment trusts with readily determinable market values at fair value in the consolidated statement of financial position. Investments in equity securities and real estate investment trusts that do not have a readily determinable market value are recorded at the lower of cost or market and are evaluated for impairment annually. Unrealized gains and losses are included in the change in net assets and realized gains and losses are calculated on the average cost basis in the consolidated statement of activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE A--PURPOSE OF FOUNDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Investments--Continued: The fair value of investments is determined using quoted market prices when available. Pooled equity funds, fund of funds, and private equity investments are reported at net asset value as provided by the external investment managers. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value (see Note K).

Real Estate Investments: Real estate investments are stated at the lower of (1) historical cost if purchased or fair market value at the date of donation, net of accumulated depreciation (2) or fair value. Periodic fair value appraisals are made as deemed necessary based upon economic conditions and management discretion. Improvements to real estate in excess of \$1,000 are depreciated on a straight-line basis over five years, which is the estimated the life of the improvements. At June 30, 2012, the Foundation held real estate investments with a cost basis of \$62,393,000, net of accumulated depreciation totaling \$6,802,000. Depreciation expense related to real estate investments was approximately \$1,303,000 for the year ended June 30, 2012.

Limited Partnership Interests: Investments classified as limited partnership interests in the statement of financial position do not have readily determinable fair values and are carried at the lower of cost or market (or fair value on the date of gift). The Foundation did not estimate the fair value of the limited partnership interests carried at cost for impairment due to the nature of the investments, prohibitive cost of obtaining such information, and because no identified events or changes in circumstances that may have a significant adverse effect on the fair value occurred during 2012.

Investments Carried at Cost: The Foundation carries real estate investments, limited partnership interests, and certain investments at the lower of cost or market. Investments carried at cost consisting of limited partnership interests, closely held stock and certain real estate investments trusts. The Foundation evaluates these investments for impairment when events or changes in circumstances are identified that may have a significant adverse effect on the fair value of the assets. If the fair value of the asset is less than the carrying value, then the asset is considered impaired. If this occurs, the Foundation performs an evaluation to determine whether this impairment is other-than-temporary. If the impairment is determined to be temporary then no impairment is recognized. If the impairment is determined to be other-than-temporary the investment is written down to its estimated fair value. Once impairment is recognized the asset will not be written back to cost, even if the investment subsequently increases in fair value..

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE A--PURPOSE OF FOUNDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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.

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.

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. The Foundation capitalizes all purchases of equipment with an original cost basis of \$1,000 or more. Depreciation is recorded using the straight-line method based on expected useful lives ranging from 3 to 40 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE A--PURPOSE OF FOUNDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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 E for additional information regarding the Foundation's split-interest agreements and gift annuities.

Funds Held for Others: The Foundation follows the ASC Topic, *Transfers of Assets to a Not-for-Profit Entity or Charitable Trust that Raises or Holds Contributions for Others*. This guidance requires the Foundation to account for assets that are received from a not-for-profit organization for the benefit of that not-for-profit organization, or one of its affiliated organizations, as a liability to the specified beneficiary concurrent with its recognition of the assets received. The Foundation maintains variance power and legal ownership over these funds. All asset transfers of this type, and the activity associated with those assets, are recognized as agency transactions and are not reflected in the consolidated statement of activities. In the consolidated statement of financial position, the assets held on behalf of the agency are included in cash and investments and the related liability is classified as funds held for others. Assets and liabilities related to such funds totaled approximately \$30,478,000 at June 30, 2012. These assets are managed in accordance with the same investment and spending policies as the Foundation's other endowment funds.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Costs are allocated between development, general and administrative, or grants and other program services based on evaluations of the related activities. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation.

Grants: Grants are recorded as an 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE A--PURPOSE OF FOUNDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Income Tax Matters: The Community Foundation and the Supporting Organizations are exempt from federal income tax under Section 501(a) of the Internal Revenue Code ("IRC") as organizations described in IRC Section 501(c)(3), and have been determined not to be private foundations under Section 509(a) of the IRC. 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 did not incur any federal income tax for the year ended June 30, 2012.

The 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 ending prior to June 30, 2008.

Recently Issued Accounting Pronouncements: The FASB has issued additional clarification related to Topic 820, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04) that are effective for periods beginning after December 15, 2011. Early adoption of this update for the year ended June 30, 2012 is not permitted. The Foundation will apply the provisions of this update prospectively beginning with the year ending June 30, 2013. The Foundation does not anticipate adoption of this new guidance to have a significant impact on the consolidated financial statements.

Subsequent Events: Management has evaluated subsequent events through April 4, 2013, the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE B--INVESTMENTS

The fair values of investments are as follows at June 30, 2012 (in thousands):

Marketable securities:	
Governmental securities	\$ 54,435
Corporate bonds	52,744
Equities	205,211
Mutual funds	41,506
Pooled equity funds	208,210
Fund of funds	43,367
Real estate investment trust (REIT)	17,715
Private equity funds	4,560
Other limited partnerships	<u>2,623</u>
Total marketable securities	<u>\$ 630,371</u>
Other investments -- carried at cost:	
Equities	\$ 1,519
Real estate investment trust (REIT)	<u>952</u>
Total other investments	<u>\$ 2,471</u>
Total investments	<u>\$ 632,842</u>

Investment income consists of the following (in thousands):

Interest and dividends	\$ 12,976
Other investment income	334
Consulting, management and administration fees	<u>(537)</u>
	<u>\$ 12,773</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE C--HEADQUARTERS AND EQUIPMENT

Headquarters and equipment are summarized as follows at June 30, 2012 (in thousands):

Land	\$	2,979
Building		19,195
Furniture		1,824
Office equipment		304
Computer equipment and software		1,900
		<u>26,202</u>
Less: Accumulated depreciation		<u>(8,984)</u>
	\$	<u>17,218</u>

Depreciation expense related to the Foundation's headquarters and equipment totaled approximately \$937,000 in 2012.

NOTE D--GRANTS PAYABLE

Grants approved and committed for future payment are payable as follows at June 30, 2012 (in thousands):

Grants payable in:		
Less than one year	\$	13,641
One to five years		10,228
Five to ten years		648
		<u>24,517</u>
Less: Unamortized discount (1.07%-3.16%)		<u>(682)</u>
	\$	<u>23,835</u>

Conditional grants totaled approximately \$5,351,000 at June 30, 2012, and are not recorded as expense until the conditions are substantially met by the grantee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE E--SPLIT-INTEREST AGREEMENTS

At June 30, 2012, the Foundation has recorded approximately \$7,650,000, in fair value of charitable gift annuities and charitable remainder trusts in which the Foundation serves as the trustee, as an asset in its consolidated statement of financial position. Assets received under these agreements are recorded at fair value and in the appropriate net asset category. Related contributions per the agreements are recognized as contribution revenue and are equal to the present value of future benefits to be received by the Foundation over the term of the agreements. Contribution revenue related to these agreements totaled \$0 in 2012. Liabilities have been established for split-interest agreements in which the Foundation is the trustee or for which the Foundation is obligated to an annuitant under a charitable gift annuity and these liabilities totaled approximately \$3,279,000 at June 30, 2012. Split-interest agreements for which the Foundation is the trustee but is not the charitable beneficiary (or not the only charitable beneficiary) the Foundation has established liabilities to the other not-for-profit organizations and this obligation totaled approximately \$575,000 at June 30, 2012.

Some of the Foundation's charitable remainder trusts (included in assets above) are income trusts. Under these agreements, payments to lead beneficiaries (i.e., the individual designated by the donor) are limited to the income earned by the trust and as such a liability to the lead beneficiary is not recorded. Gifts of income trusts are recorded at fair value on the gift date. The fair value of the contribution is the fair value of the assets to be received in the future, discounted for the life expectancy of the lead beneficiary. The difference between the fair value of the assets when received and the fair value of the contribution is recognized as deferred revenue in the statement of financial position and totaled approximately \$524,000 at June 30, 2012. The discount will be amortized over the term of the trusts as a decrease in deferred revenue and an increase in change in value of split-interest agreements in the consolidated statement of activities.

During the term of the agreements, changes in the value of the split-interest agreements are recognized in the consolidated statement of activities based on accretion of the discounted amount of the contribution, and revaluations of the expected future benefits (payments) to be received (paid) by the Foundation (beneficiaries), based on changes in life expectancy and other assumptions. Discount rates ranging from 1.2% to 5.8% were used in these calculations at the dates of the contributions.

The Foundation is the beneficiary of six irrevocable charitable remainder trusts held by financial institutions at June 30, 2012. The beneficial interest is carried at fair value which is based on the present value of the future distributions expected to be received over the term of the agreements. Contribution revenue related to the beneficial interests totaled approximately \$1,508,000 in 2012. The Foundation used a discount rate of 3.8% and determined the trusts have a fair value of approximately \$4,663,000 at June 30, 2012. Changes in fair value of the beneficial interests are reflected as a change in value of split-interest agreements in the consolidated statement of activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE F--TOTAL NET ASSET COMPOSITION

The Foundation's total net asset composition at June 30, 2012 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds	\$ 19,688	\$ 102,962	\$ 6,031	\$ 128,681
Supporting organizations	352,575	-	-	352,575
Non-endowment funds:				
Donor advised	171,448	-	-	171,448
Donor purpose restricted	-	2,914	-	2,914
Non-donor advised	110,346	-	-	110,346
Headquarters and equipment	17,218	-	-	17,218
	<u>299,012</u>	<u>2,914</u>	<u>-</u>	<u>301,926</u>
Split-interest agreements	81	7,855	-	7,936
	<u>81</u>	<u>7,855</u>	<u>-</u>	<u>7,936</u>
Total net assets	<u>\$ 671,356</u>	<u>\$ 113,731</u>	<u>\$ 6,031</u>	<u>\$ 791,118</u>

Historically, the Foundation considered the likelihood of exercising variance power to be remote, and as a result, classified net assets with purpose restrictions as temporarily restricted. After a comprehensive analysis during 2012, the Foundation determined that although it is not likely the Foundation will exercise its variance power, the likelihood is greater than remote, and therefore, the Foundation reclassified certain temporarily restricted net assets received under standard gift instruments totaling approximately \$9,282,000 to unrestricted net assets.

Temporarily restricted net assets include contributions received with endowment restrictions, time restrictions, and those received under split-interest agreements with an implied time restriction. In addition, the Foundation continues to classify contributions (and related net assets) received under gift instruments (generally grants) which specifically do not reference variance power and require the return of assets if not used for the donor specified purpose until such funds are expended in accordance with the donor restricted purpose as temporarily restricted.

Permanently restricted net assets include donor restricted endowment funds in which variance power is not referenced in the gift instrument and based on the Foundation's legal opinion are not spendable through action of the board of trustees.

The Foundation manages more than 500 donor advised funds at June 30, 2012. 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. Non-donor advised funds represent amounts held by the Foundation designated for specific purposes by donors and/or the Foundation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE G--ENDOWMENT FUNDS

Endowment net asset composition at June 30, 2012 is summarized as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 102,962	\$ 6,031	\$ 108,993
Board-designated endowment funds	<u>19,688</u>	<u>-</u>	<u>-</u>	<u>19,688</u>
Total endowment funds	<u>\$ 19,688</u>	<u>\$ 102,962</u>	<u>\$ 6,031</u>	<u>\$ 128,681</u>

Changes in endowment net assets for the year ended June 30, 2012 are summarized as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at July 1, 2011	\$ 20,432	\$ 97,706	\$ 7,230	\$ 125,368
Investment return				
Investment income	-	1,444	-	1,444
Realized gains	294	1,404	-	1,698
Unrealized losses	<u>(386)</u>	<u>(2,064)</u>	<u>-</u>	<u>(2,450)</u>
Total investment return	(92)	784	-	692
Other income (loss)	-	16	-	16
Contributions	141	2,237	193	2,571
Donor-directed reclassifications	-	6,080	(1,392)	4,688
Appropriation of endowment assets	<u>(793)</u>	<u>(3,861)</u>	<u>-</u>	<u>(4,654)</u>
Endowment net assets at June 30, 2012	<u>\$ 19,688</u>	<u>\$ 102,962</u>	<u>\$ 6,031</u>	<u>\$ 128,681</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE H--EMPLOYEE BENEFIT PLANS

The Foundation has a defined benefit employee retirement plan, the CFT Employees Retirement Plan (the "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 Trustees adopted a resolution to curtail the Plan with no further benefits accruing for current participants. The Plan will terminate once it is fully funded.

Obligations and funded status at June 30, 2012 (in thousands):

Projected benefit obligation	\$ 3,463
Plan assets at fair value	<u>2,149</u>
Funded status (included in accrued liabilities and other payables)	<u>\$ (1,314)</u>
Accumulated benefit obligation	\$ 3,463
Employer contributions	156
Benefits paid	(188)

Net periodic pension costs in 2012 (in thousands):

Interest cost	\$ 143
Amortization of prior service cost and net loss	26
Expected return on plan assets	<u>(151)</u>
Total recognized in net periodic pension cost and unrestricted net assets	<u>\$ 18</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 \$74,000.

The following assumptions were used in accounting for the Plan:

Weighted-average assumptions used to determine benefit obligations:	
Discount rate	5.00%
Rate of compensation increase	N/A
Weighted-average assumptions used to determine net periodic benefit cost for the year ended:	
Discount rate	3.50%
Expected return on plan assets	7.0%
Rate of compensation increase	N/A

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE H--EMPLOYEE BENEFIT PLANS--Continued

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 investment consultants manage all assets of the Plan and professional advisors assist the Plan in the attainment of its objectives.

Estimated future benefit payments at June 30, 2012 (in thousands):

Next fiscal year (Year 1)	\$	182
Year 2		204
Year 3		225
Year 4		228
Year 5		228
Years 6-10		1,113

Contributions to the Plan for 2013 are estimated at approximately \$145,000.

The Foundation's pension plan assets are carried at fair value in accordance with the fair value hierarchy as described in Note K. A description of the valuation techniques applied to the Plan's assets are as follows:

Cash: Cash includes investments in funds comprised of short-term securities that can be liquidated daily and are valued at the closing price reported by the funds' sponsor.

Debt and Equity Index Funds: Debt and Equity index funds are collective trust funds valued at net asset value ("NAV") per share as provided by the fund manager and is derived from dividing the fund's net assets at fair value by its units outstanding at the valuation date. The shares of these accounts may be purchased or sold daily at NAV. There are no restrictions or notice requirements for participant transactions and the Plan has no funding commitments to the common collective trust funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE H--EMPLOYEE BENEFIT PLANS--Continued

The fair values of the Plan assets and their classifications within the fair value hierarchy are summarized as follows at June 30, 2012 (in thousands):

<u>Asset Class</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash	\$ 48	\$ -	\$ 48
Equity index funds	-	1,305	1,305
Debt index funds	-	796	796
	<u>\$ 48</u>	<u>\$ 2,101</u>	<u>\$ 2,149</u>

Defined Contribution Plan

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 twenty-one. 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 \$320,000 in 2012.

NOTE I--CONCENTRATIONS AND RISKS OF CREDIT

At June 30, 2012, the Foundation maintained uninsured balances of cash and cash equivalents of approximately \$6,210,000 in depository accounts and approximately \$100,234,000 in short-term securities and money market funds with financial institutions. The Foundation monitors financial institution concentrations and does not anticipate any losses from these concentrations.

At June 30, 2012, net contributions receivable of approximately 74% are due from one donor. The Foundation received contributions from six donors representing 49% of total contribution revenue in 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE J--CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable, including amounts due under pledge agreements, are expected to be collected as follows at June 30, 2012 (in thousands):

Contributions receivable in:	
Less than one year	\$ 14,325
One to five years	<u>5,225</u>
	19,550
Less: Unamortized discount (3.0% - 3.4%)	<u>(329)</u>
	<u>\$ 19,221</u>

At June 30, 2012, conditional promises to give were approximately \$6,143,000. These contributions will be recorded as revenue when the conditions have been substantially met.

NOTE K--FAIR VALUE MEASUREMENTS

As described in Note A, the Foundation records its investments in marketable securities, certain real estate investments trusts, certain limited partnerships (including hedge funds and private equity), 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 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 summarized as follows:

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE K--FAIR VALUE MEASUREMENTS--Continued

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. For the year ended June 30, 2012, there were no significant transfers between levels.

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 consideration of factors specific to the investment.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE K--FAIR VALUE MEASUREMENTS--Continued

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.

Equity securities (common and preferred stock) and mutual funds: Securities traded on national securities exchanges (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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE K--FAIR VALUE MEASUREMENTS--Continued

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, private equity funds, REITs and other limited partnerships: 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE K--FAIR VALUE MEASUREMENTS--Continued

Pooled equity funds, fund of funds, private equity funds, REITs and other limited partnerships--Continued: 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 consideration 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.

Beneficial interest in charitable remainder trust: The fair value of the underlying trust assets are based on quoted market prices when available or the best estimate of fair value as determined by the trust manager. The Foundation's valuation technique considers the fair value of the assets held in the trust, the age of the lead beneficiaries, and applies a discount rate to convert the Foundation's interest in the trust to a single present value amount. The discount rate used by the Foundation reflects current market conditions including the inherent risk in the underlying assets and the risk of nonperformance by the trustee. Due to the significant unobservable inputs required to estimate the expected future cash receipts from the trust agreement under the income approach, the Foundation's beneficial interest is classified as Level 3.

Funds held for others: The liabilities are carried at fair value as determined using the market approach. Fair value is based on the fair value of the cash and investment assets held by the Foundation for the benefit of others. The specific assets held for the benefit of others have been classified within the hierarchy for investments (as discussed above). The related and associated liability is classified as Level 3 in the hierarchy as there is no market for a similar liability and principal inputs (i.e., fair value of assets in the portfolio) are classified partly as Level 3 and therefore are unobservable and significant to the overall fair value measurement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE K--FAIR VALUE MEASUREMENTS--Continued

Assets and liabilities measured at fair value are classified within the fair value hierarchy as follows at June 30, 2012 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash equivalents	\$ 102,469	\$ 8,641	\$ -	\$ 111,110
Investments:				
Government securities	21,833	32,602	-	54,435
Corporate bonds	-	52,744	-	52,744
Equities:				
Energy	28,931	-	-	28,931
Materials	5,588	-	-	5,588
Industrial	17,618	-	-	17,618
Consumer discretionary	44,005	-	-	44,005
Consumer staples	15,943	-	-	15,943
Health care	19,891	-	-	19,891
Financial	20,759	-	-	20,759
Information technology	26,990	-	-	26,990
Telecom	5,838	-	-	5,838
Utilities	2,920	-	-	2,920
Other	16,728	-	-	16,728
Total equities	205,211	-	-	205,211
Mutual funds	41,506	-	-	41,506
Pooled equity funds:				
Russell Index Funds	-	49,931	-	49,931
Equity funds	-	3,433	-	3,433
International funds	-	14,649	-	14,649
Emerging markets funds	-	19,447	-	19,447
Multi-asset fund	-	120,750	-	120,750
Total pooled equity funds	-	208,210	-	208,210
Fund of funds	-	1,805	41,562	43,367
Private equity funds	-	-	4,560	4,560
REITs	1,748	15,967	-	17,715
Other limited partnership interests	-	2,623	-	2,623
Total investments	270,298	313,951	46,122	630,371
Beneficial interest in charitable remainder trust	-	-	4,663	4,663
Total assets measured at fair value on a recurring basis	<u>\$ 270,298</u>	<u>\$ 313,951</u>	<u>\$ 50,785</u>	<u>\$ 635,034</u>
Liabilities:				
Funds held for others	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,478</u>	<u>\$ 30,478</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE K--FAIR VALUE MEASUREMENTS--Continued

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

	Fund of Funds	Private Equity Funds	Beneficial Interest In Charitable Remainder Trust	Funds Held For Others
Balance at July 1, 2011	\$ 22,054	\$ 3,862	\$ 3,188	\$ 32,724
Realized gain, included in earnings	586	135	-	-
Unrealized gain, included in earnings	385	160	-	-
Change in value of split-interest agreements	-	-	(33)	-
Contributions	-	-	1,508	-
Investment purchases	19,807	1,072	-	-
Investment sales	(1,270)	(669)	-	-
Transfers in	-	-	-	11,184
Transfers out	-	-	-	(13,430)
Balance at June 30, 2012	<u>\$ 41,562</u>	<u>\$ 4,560</u>	<u>\$ 4,663</u>	<u>\$ 30,478</u>

The total change in unrealized appreciation included in the consolidated statement of activities attributable to Level 3 investments still held at June 30, 2012 includes (in thousands):

<u>Fund of Funds</u>	<u>Private Equity Funds</u>
<u>\$ 3,801</u>	<u>\$ 1,635</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE K--FAIR VALUE MEASUREMENTS--Continued

The following table provides additional information describing the nature and risks of assets carried at NAV by major class:

	June 30, 2012			
	Fair Value (In Thousands)	Unfunded Commitments (In Thousands)	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Russell index funds ^(a)	\$ 49,931	\$ -	Daily, Weekly, Monthly, Bi-Monthly	3-30 days
Equity funds ^(b)	3,433	-	Daily, Monthly	3-30 days
International funds ^(b)	14,649	-	Weekly, Monthly	3-30 days
Emerging markets funds ^(a)	19,447	-	Monthly, Bi-Monthly	7-15 days
Multi-asset funds ^(c)	120,750	-	Daily	1 day
Other limited partnerships ^(d)	2,623	-	Monthly, Quarterly	5-60 days
Fund of funds ^(d)	43,367	8,659	Daily, Quarterly, Annually	3-100 days
REITs ^(e)	15,967	-	Bi-Weekly	15 days
Private equity funds ^(f)	4,560	2,549	N/A	N/A
	<u>\$ 274,727</u>	<u>\$ 11,208</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.
- (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 50% of the fund of funds value were not available to be redeemed at June 30, 2012 due to lockup periods extending through December 2015. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF TEXAS

June 30, 2012

NOTE K--FAIR VALUE MEASUREMENTS--Continued

(f) These investments consist of investments in private equity funds and similar investment funds that are generally designed for long-term investment strategies by investing in companies whose stock is not publically traded, bank debt, and similar investment securities. Distributions are typically based on capital transactions and other liquidity events within the underlying investment funds. The Foundation has requested full redemption from one investment that has been transferred to a liquidating trust, with a value of approximately \$106,000 at June 30, 2012; however, the date and amount ultimately to be received by the Foundation from the trust cannot be determined. In addition, the other investments in this category cannot currently be redeemed by the Foundation and the ultimate outcome of liquidity events and overall duration of the funds cannot reasonably be determined.

NOTE L--COMMITMENTS AND CONTINGENCIES

A Supporting Organization has a funding agreement with a university which commits to annual contributions of approximately 90% of the lesser of net income (excluding gain on the sale or exchange of property held for investment) or net cash flow from operating activities of the Supporting Organization not to exceed the target contribution of \$1,250,000. In the event the net income or net cash flow is not sufficient to meet the target contribution, the Supporting Organization has an agreement with a donor to fund the "short-fall" amount. The funding agreement is intended to continue in perpetuity unless, over time, the Supporting Organization makes "special contributions" (i.e. contributions in excess of "target contribution") aggregating \$25,000,000. At June 30, 2012 the Supporting Organization has met the target contribution level for all program years and has made special contributions totaling approximately \$5,755,000. The donor may terminate his agreement with the Supporting Organization at any time, at which point the Supporting Organization can terminate its agreement with the university subject to a four year phase out period.

NOTE M--RESTATEMENT

During 2012, the Community Foundation performed an evaluation of its affiliated organizations in accordance with Subtopic 958-810 and concluded the Community Foundation has both control and an economic interest in two organizations. Under the terms of these affiliated organizations' bylaws, the Community Foundation controls the two organizations through its ability to appoint the majority of the voting board members of the affiliates' board of directors and an economic interest as both organizations were formed for the benefit of the Community Foundation as well as other charitable organizations with the Community Foundation retaining the ultimate power and discretion over all distributions. As a result of this evaluation, the Community Foundation consolidated these two supporting foundations effective July 1, 2011 which increased unrestricted net assets \$84,240,000.