

THE DALLAS FOUNDATION

December 31, 2010

Audited Financial Statements

THE DALLAS FOUNDATION

December 31, 2010

Independent Auditors' Report	1
Statements of Financial Position.....	2
Statements of Activities.....	3
Statements of Cash Flows	4
Notes to Financial Statements.....	5

Independent Auditors' Report

To the Board of Governors
The Dallas Foundation
Dallas, Texas

We have audited the accompanying statements of financial position of The Dallas Foundation (the "Foundation") as of December 31, 2010 and 2009, and the related 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 The Dallas Foundation as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Cole & Reed P.C.

Oklahoma City, Oklahoma
June 3, 2011

STATEMENTS OF FINANCIAL POSITION

THE DALLAS FOUNDATION

	December 31	
	2010	2009
ASSETS		
Cash and cash equivalents	\$ 294,525	\$ 380,601
Investments	148,477,196	125,209,300
Pledges receivable, net	11,514,525	28,680,287
Beneficial interests in perpetual trusts	18,975,909	17,432,410
Beneficial interests in charitable lead trusts	2,190,247	2,255,054
Other receivables	118	-
Prepaid expenses and other receivables	1,974	13,312
Real estate and mineral interests	461,029	461,029
Equipment, net	16,856	15,089
	<u>181,932,379</u>	<u>174,447,082</u>
TOTAL ASSETS	<u>\$ 181,932,379</u>	<u>\$ 174,447,082</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other liabilities	\$ 52,701	\$ 50,948
Grants and program services payable, net	6,443,612	5,189,278
Liability for agency transfers	14,878,489	14,531,757
	<u>21,374,802</u>	<u>19,771,983</u>
TOTAL LIABILITIES	<u>21,374,802</u>	<u>19,771,983</u>
 NET ASSETS		
Unrestricted	135,489,498	114,041,544
Temporarily restricted	6,092,170	23,201,145
Permanently restricted	18,975,909	17,432,410
	<u>160,557,577</u>	<u>154,675,099</u>
TOTAL NET ASSETS	<u>160,557,577</u>	<u>154,675,099</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 181,932,379</u>	<u>\$ 174,447,082</u>

See notes to financial statements.

STATEMENTS OF ACTIVITIES

THE DALLAS FOUNDATION

	Year Ended December 31, 2010				Year Ended December 31, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT								
Total contributions	\$ 27,805,443	\$ 1,172,154	\$ -	\$ 28,977,597	\$ 13,922,615	\$ 27,497,622	\$ -	\$ 41,420,237
Less: Agency transfers received	1,156,136	144,974	-	1,301,110	370,543	9,734,189	-	10,104,732
Contributions	26,649,307	1,027,180	-	27,676,487	13,552,072	17,763,433	-	31,315,505
Provision for uncollectible pledges	-	(183,890)	-	(183,890)	-	(352,012)	-	(352,012)
Total investment income	3,632,277	-	-	3,632,277	3,654,614	-	-	3,654,614
Less: Income on agency transfers	113,129	-	-	113,129	103,563	-	-	103,563
Investment income	3,519,148	-	-	3,519,148	3,551,051	-	-	3,551,051
Total net investment gains, net of investment management fees of \$244,169 and \$225,121, in 2010 and 2009, respectively	4,616,620	-	-	4,616,620	15,557,427	-	-	15,557,427
Less: Investment gains on agency transfers, net of investment management fees of \$2,215 and \$3,345 in 2010 and 2009, respectively	577,770	-	-	577,770	683,110	-	-	683,110
Net investment gains	4,038,850	-	-	4,038,850	14,874,317	-	-	14,874,317
Change in value of beneficial interests in perpetual trusts	-	-	1,543,499	1,543,499	-	-	1,769,525	1,769,525
Change in value of beneficial interests in charitable lead trusts	-	168,529	-	168,529	-	(513,791)	-	(513,791)
Rental and royalty income	224,945	-	-	224,945	203,247	-	-	203,247
Other income	45,711	-	-	45,711	34,102	-	-	34,102
Net assets released from restrictions	18,120,794	(18,120,794)	-	-	5,381,018	(5,381,018)	-	-
TOTAL REVENUES AND SUPPORT	52,598,755	(17,108,975)	1,543,499	37,033,279	37,595,807	11,516,612	1,769,525	50,881,944
EXPENSES AND DISTRIBUTIONS								
Total grants and program services	31,408,988	-	-	31,408,988	32,215,367	-	-	32,215,367
Less: Grants on agency transfers	1,599,566	-	-	1,599,566	285,067	-	-	285,067
Grants and program services	29,809,422	-	-	29,809,422	31,930,300	-	-	31,930,300
Educational support	458,938	-	-	458,938	433,318	-	-	433,318
General and administrative	663,228	-	-	663,228	615,540	-	-	615,540
Development	219,213	-	-	219,213	215,235	-	-	215,235
TOTAL EXPENSES AND DISTRIBUTIONS	31,150,801	-	-	31,150,801	33,194,393	-	-	33,194,393
CHANGE IN NET ASSETS	21,447,954	(17,108,975)	1,543,499	5,882,478	4,401,414	11,516,612	1,769,525	17,687,551
NET ASSETS AT BEGINNING OF YEAR	114,041,544	23,201,145	17,432,410	154,675,099	109,640,130	11,684,533	15,662,885	136,987,548
NET ASSETS AT END OF YEAR	\$ 135,489,498	\$ 6,092,170	\$ 18,975,909	\$ 160,557,577	\$ 114,041,544	\$ 23,201,145	\$ 17,432,410	\$ 154,675,099

See notes to financial statements.

STATEMENTS OF CASH FLOWS

THE DALLAS FOUNDATION

	Year Ended December 31	
	2010	2009
OPERATING ACTIVITIES		
Change in net assets	\$ 5,882,478	\$ 17,687,551
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Loss on disposal of equipment	-	1,996
Non-cash contributions	(13,396,931)	(3,314,492)
Provision for uncollectible pledges	183,890	352,012
Net investment gains	(4,038,850)	(14,874,317)
Change in value of beneficial interests in perpetual trusts	(1,543,499)	(1,769,525)
Change in value of beneficial interests in charitable lead trusts	(168,529)	513,791
Distributions from lead trusts	233,336	270,100
Depreciation	4,545	7,488
Discount amortization and accretion, net	(115,502)	301,184
Changes in operating assets and liabilities:		
Pledges and other receivables	17,234,625	(20,654,731)
Prepaid expenses	11,338	(12,734)
Accounts payable and other liabilities	1,753	(20,753)
Grants and program services payable	1,330,106	206,393
Liability for agency transfers	201,758	10,572,236
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	5,820,518	(10,733,801)
INVESTING ACTIVITIES		
Purchases of investments	(43,363,339)	(24,740,958)
Proceeds from sales and maturities of investments	37,463,057	35,551,330
Purchases of equipment	(6,312)	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(5,906,594)	10,810,372
NET CHANGE IN CASH AND CASH EQUIVALENTS	(86,076)	76,571
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	380,601	304,030
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 294,525	\$ 380,601
SUPPLEMENTAL CASH FLOW SUMMARY		
Amortization of pledge discount on agency transfers	\$ 144,974	\$ -

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

THE DALLAS FOUNDATION

December 31, 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Dallas Foundation (the "Foundation") is a community foundation that supports local nonprofit agencies. The Foundation awards grants which benefit arts and humanities, education, health, social services, and general community service primarily in Dallas County, Texas.

Basis of Presentation: The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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. Fund accounting is the procedures by which resources for various purposes are classified for accounting purposes into funds that are maintained in accordance with the activities or objectives of the Foundation.

For external reporting purposes, however, the Foundation's financial statements have been prepared to focus on the organization as a whole and to follow the reporting requirements of the Financial Accounting Standards Board ("FASB") which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into three classes of net assets – unrestricted, temporarily restricted, and permanently restricted. Descriptions of the three net asset categories and related activities follow:

Unrestricted – Net assets that are not subject to donor-imposed restrictions.

FASB Accounting Standards Codification Topic and its interpretations provide that if the governing body of the organization has the ability to remove a donor restriction (i.e., variance power), the contribution should be classified as unrestricted. Under the terms of certain gift instruments, the assets are held and invested in a manner similar to endowment funds; however, the Board of Governors has the authority, if it deems it prudent and appropriate to expend the entirety of the principal or appreciation. In addition, the Foundation receives contributions from donors with advice regarding distribution of the assets and their related earnings. The Foundation attempts to meet the desires expressed by the donors at the time of the contribution; however, the Foundation reserves the right to modify any restrictions or conditions on the distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgment of the Foundation's Board of Governors, such restrictions or conditions become unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community. Accordingly, all net assets and related activity over which the management of the Foundation exercises direct control are classified as unrestricted net assets in the financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Basis of Presentation--Continued:

Temporarily Restricted – Net assets subject to donor-imposed restrictions that will be met either by actions of the Foundation or the passage of time. Net assets and related activity from term trusts, whereby the Foundation has a beneficial interest in a stream of income over a specified period of time, as well as contributions receivable restricted to use in future periods, are recorded as temporarily restricted net assets. These assets are released from their implicit time restriction when cash is collected.

Permanently Restricted – Net assets subject to donor-imposed restrictions to be maintained permanently. Net assets and related activity from perpetual trusts, whereby the Foundation has a beneficial interest in a stream of income in perpetuity, are recorded as permanently restricted net assets.

In August 2008, the FASB issued new guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). The new requirements also improve disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The state of Texas adopted UPMIFA effective September 1, 2007. The Board of Governors, on the advice of legal counsel, has determined that the Foundation's net assets do not meet the definition of an endowment under UPMIFA. The Foundation is governed subject to the terms of its by-laws and articles of incorporation and all contributions are subject to the terms of these governing documents. Under the terms of the Foundation's governing documents, the Board of Governors (the “Board”) has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions of the Foundation (except as explained above) are classified as unrestricted net assets for financial statement purposes. While the assets of the Foundation do not meet the definition of an endowment as defined under UPMIFA, some of the assets function as endowments and are managed by the Foundation similar to endowment funds.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Basis of Presentation--Continued: Transfers of financial assets from a resource provider for the benefit of the resource provider and/or its affiliate are recorded at fair value. The Foundation recognizes the assets received concurrent with its recognition of a liability to the specified beneficiary (i.e., "liability for agency transfers"). The Foundation follows the gross method of reporting such transactions; therefore, all assets of this type, and the activity associated with those assets, are reported as agency transfers in the statements of activities (see Note I).

Revenue and Expenses: Revenue is reported as an increase in unrestricted net assets unless use of the related asset is limited by donor-imposed time or purpose restriction. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is limited by a donor-imposed time restriction. Expirations of temporary restrictions on net assets (i.e., the stipulated time period has elapsed or the cash has been collected) are reported as net assets released from restrictions.

Contributions, including unconditional pledges, are recognized as revenues in the period the unconditional promises to give are received. Contributions of assets other than cash are recorded at their estimated fair value. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. No amounts have been recognized in the financial statements for conditional promises to give, which generally arise from the Foundation being named as a beneficiary in a revocable will or trust, because the conditions on which such contributions depend have not been substantially met.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are discounted at an appropriate rate commensurate with the risk involved. Amortization of the discounts is included in temporarily restricted contribution revenue. An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of the fund-raising activity.

Cash and Cash Equivalents: The Foundation considers all highly liquid investments with a maturity of three months or less when purchased, excluding cash equivalent funds held in the Foundation's investment portfolio, to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Investments: Investments are recorded in the financial statements at estimated fair value. The estimated fair value of investments is based on quoted market prices, except for certain alternative investments such as hedge funds, common funds, and pooled funds, for which quoted market prices may not be available. Investments for which observable market prices in active markets do not exist are reported at fair value based on net asset values provided by the external managers, except for certain partnership interests which are estimated by the Foundation's management. The valuations for these alternative investments involve estimates, appraisals, and assumptions. To minimize the risk of loss, alternative investments are diversified by strategy, external manager, and number of positions. Realized gains and losses on sales of securities are computed on the average cost basis.

Beneficial Interests in Perpetual Trusts: The Foundation is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Foundation. The Foundation has an irrevocable right to a portion of the net income of these trusts. The Foundation's interest in these trusts is recorded at fair value of the estimated future cash flows which is measured using the fair value of the underlying trust assets adjusted for the Foundation's beneficial interest percentage of the total trust. The trusts generally distribute 5% of the average fair market value of the trust for the previous three years or the actual trust income to the Foundation. The beneficial interest is classified as permanently restricted net assets. Distributions received from these trusts are recorded as unrestricted investment income and changes in the market value are recorded as a permanently restricted change in value of beneficial interests in perpetual trusts in the statements of activities.

Beneficial Interests in Charitable Lead Trusts: Under charitable lead trust agreements, the Foundation receives annual benefits over the term of the trust with remaining trust assets at the end of the trust's term being distributed to a third party beneficiary. For irrevocable charitable lead trusts when the Foundation is not the trustee, assets of the trust are classified as temporarily restricted and carried at fair value in the statements of financial position based on the present value of amounts which the Foundation expects to receive over the terms of the agreement. The assets of the trusts are valued over a period range of 10 to 20 years using the current discount rate which ranged from 6% to 6.5% at December 31, 2010 and December 31, 2009, and the estimated net investment return of the trust which is estimated at 8.5% to 10% at December 31, 2010 and 2009. Changes in the fair value of beneficial interests are reflected as temporarily restricted change in value of beneficial interests in charitable lead trusts in the statements of activities.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Real Estate and Mineral Interests: Real estate and mineral interests are recorded at the lower of cost or fair value. Permanent decreases in fair value below cost are recorded in the year that such decreases become known. Contributions of real estate and mineral interests are recorded at fair market value at the time of donation.

Equipment: Equipment is stated at cost, or if donated, the fair market value at the date of the gift, less accumulated depreciation. The Foundation capitalizes items in excess of \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are seven years for furniture and fixtures and leasehold improvements, three years for software, and three to seven years for equipment.

Grants and Program Service Payable: Grants and program services payable consist of unconditional amounts awarded, but not paid, to not-for-profit organizations or vendors on their behalf. Grants dependent on the occurrence of a specified and uncertain event are not recognized until the conditions on which they depend are substantially met. Grants to be paid after one year are discounted at an appropriate rate commensurate with the risk involved. Amortization of the discount is recorded as additional grant expense.

Income Taxes: The Foundation is a public charitable trust organized under the laws of the State of Texas and is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code. Accordingly, no provision has been made for federal income tax.

Accounting for Uncertain Tax Positions: The Financial Accounting Standards Board issued guidance on the accounting for uncertainty in income taxes. The Foundation adopted this new guidance for the year ended December 31, 2009. Management evaluates the Foundation's tax positions and has concluded that the Foundation has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2006.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Costs are allocated based on evaluations of the related activities into four functional categories as follows:

Grants and Program Services: Grants and program services represent amounts awarded to various not-for-profit organizations to assist with funding of general operations or specific programs.

Educational Support: Educational support includes activities to educate current donors, affiliated professional advisors, and the local community on philanthropic issues and opportunities. This education process involves researching and disseminating information about the not-for-profit community and educating others on methods to leverage private resources more effectively.

General and Administrative: General and administrative costs include activities which are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation. General and administrative expenses include oversight, business management, general record keeping, budgeting, financing, and other similar activities.

Development: Development costs include activities which involve inducing potential donors to contribute money, securities, other assets, or time. They include publicizing and conducting fund-raising campaigns, maintaining donor mailing lists, and other similar activities.

Concentration of Credit Risk: The Foundation places its cash, cash equivalents, short-term funds and marketable securities with high credit quality financial institutions which, at times, may exceed federally insured limits. The Foundation has not experienced any losses on such accounts.

The Foundation received contributions from five donors totaling approximately \$13,501,000 and 49% of total contributions in 2010 and received contributions from five donors totaling approximately \$5,506,000 and 31% of total contributions in 2009. At December 31, 2010 and 2009, the Foundation's pledges receivable reflected in the statements of financial position are primarily due from two donors representing 87% and 65%, respectively, of gross pledges receivable.

At December 31, 2010 and 2009, the Foundation's grants payable reflected in the statements of financial position are primarily due to seven grant recipients representing 45% and six grant recipients representing 24%, respectively, of total grants payable.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant Estimates: Estimates that are particularly susceptible to significant change include the valuation of investments, beneficial interests in perpetual and charitable lead trusts, and pledges receivable. Investments and beneficial interests in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these assets, it is reasonably possible that changes in the values of investments and beneficial interests will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position. Significant fluctuations in fair values could occur from year to year and the amounts the Foundation will ultimately realize could differ materially. Management's estimate of pledges receivable is based on consideration of all relevant available information and an analysis of the collectability of individual contributions, which arise primarily from pledges, trusts, and estates at the financial statement date.

Fair Value Measurements: The Foundation follows FASB Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*. Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs that are derived principally from or corroborated by observable market data; and
- Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Fair Value Measurements--Continued: Financial assets and liabilities carried at fair value on a recurring basis include investments, beneficial interest in perpetual trusts, beneficial interest in charitable lead trusts, and the liability for agency transfers (see Note J).

The FASB continues to clarify and enhance disclosures related to Topic 820 and as a result, the Foundation implemented Improving Disclosures about Fair Value Measurements (ASU 2010-06) for the year ended December 31, 2010. This update requires additional disclosures regarding fair value measurements and provides clarification regarding the level of disaggregation of fair value disclosures by investment class and activity within the reconciliation for fair value measurements using significant unobservable inputs (Level 3). Implementation of these new requirements expanded the level of information included in the Foundation's fair value measurements disclosures.

Subsequent Events: Management has evaluated subsequent events through June 3, 2011, the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.

Reclassifications: Certain reclassifications have been made in the December 31, 2009 financial statements to conform to the classification used at December 31, 2010.

NOTE B--INVESTMENT PERFORMANCE

Reconciliation of investment performance is as follows:

	2010	2009
Interest and dividends	\$ 2,692,441	\$ 2,680,467
Perpetual trust distributions	939,836	974,147
Total investment income	<u>\$ 3,632,277</u>	<u>\$ 3,654,614</u>
Net realized losses on investments	\$ (1,630,373)	\$ (408,803)
Net unrealized gains on investments	6,491,162	16,191,351
	4,860,789	15,782,548
Less: Investment management and custody fees	244,169	225,121
Total investment gains, net	<u>\$ 4,616,620</u>	<u>\$ 15,557,427</u>

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE C--PLEDGES RECEIVABLE

The maturities of pledges receivable are as follows at December 31:

	<u>2010</u>	<u>2009</u>
Pledges receivables in less than one year	\$ 7,510,620	\$ 21,428,516
Pledges receivables in one to five years	<u>4,490,300</u>	<u>7,968,400</u>
Total	12,000,920	29,396,916
Less: Discount to net present value	158,750	343,454
Allowance for uncollectible pledges	<u>327,645</u>	<u>373,175</u>
	<u>\$ 11,514,525</u>	<u>\$ 28,680,287</u>

Discount rates ranged from 0.89% to 3.26% at December 31, 2010 and from 0.89% to 4.94% at December 31, 2009.

No amounts have been recognized in the financial statements for conditional promises to give because the conditions on which they depend have not been substantially met. The Foundation is most likely the beneficiary of other estates and/or bequests at December 31, 2010 and 2009 but these conditional promises to give cannot be estimated due to the insufficiency of information available.

NOTE D--GRANTS AND PROGRAM SERVICES PAYABLE

Grants and program services payable consist of unconditional amounts awarded, but not paid, to various not-for-profit groups. Unconditional grants and program services payable are as follows at December 31:

	<u>2010</u>	<u>2009</u>
Grants payable in less than one year	\$ 4,944,945	\$ 4,901,574
Grants payable in one to five years	<u>1,580,942</u>	<u>294,207</u>
Total	6,525,887	5,195,781
Less: Discount to net present value	82,275	6,503
	<u>\$ 6,443,612</u>	<u>\$ 5,189,278</u>

Discount rates ranged from 0.89% to 3.26% at December 31, 2010 and 0.89% to 4.94% at December 31, 2009.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE E--EQUIPMENT

Equipment is summarized as follows: at December 31:

	<u>2010</u>	<u>2009</u>
Furniture and fixtures	\$ 20,711	\$ 20,711
Leasehold improvements	9,420	9,420
Software	62,989	62,989
Equipment	<u>60,451</u>	<u>54,139</u>
Total	153,571	147,259
Less: Accumulated depreciation	<u>136,715</u>	<u>132,170</u>
	<u>\$ 16,856</u>	<u>\$ 15,089</u>

NOTE F--DONATED GOODS AND PROFESSIONAL SERVICES

Donated goods are recorded at their estimated fair market value when received. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills and would typically need to be purchased if not provided by donation. The Foundation recorded donated goods and professional services with a fair value of \$42,090 and \$11,050 for 2010 and 2009, respectively. These amounts are included in unrestricted contributions and administrative expenses in the accompanying statements of activities.

NOTE G--EMPLOYEE BENEFIT PLAN

The Foundation has a defined contribution plan (the "Plan") which covers substantially all employees. Employees may contribute up to 20% of their compensation to the Plan, but not to exceed the annual limit set by the Internal Revenue Service. The Foundation's contributions are voluntary and at the discretion of the Board of Governors. The Foundation contributed \$30,000 to the Plan for 2010 and 2009.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE H--LEASE OBLIGATIONS

The Foundation has a noncancelable operating lease agreement for office space. Under the terms of the lease, payments escalate during the lease period based on a predetermined payment schedule. The lease expires November 30, 2012. Future minimum lease payments under this noncancelable lease are as follows:

Year ending	
2011	91,079
2012	<u>84,648</u>
Total minimum lease payments	<u>\$ 175,727</u>

Rent expense for 2010 and 2009, was approximately \$98,000 and \$89,000, respectively.

NOTE I--AGENCY TRANSACTIONS

The Foundation follows the Accounting Standards Codification *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* which establishes standards for transactions in which the Foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets or both to another entity that is specified by the donor. This guidance specifically requires that if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself or one of its affiliated organizations as the beneficiary of that fund, the community foundation must account for the transfer of such assets and the activity associated with those assets as a liability.

The Foundation maintains variance power, as described in the governing documents of the Foundation, and legal ownership over these funds and, as such, continues to report the funds as assets of the Foundation. Variance power assures donors that if the charitable purpose of their contribution becomes impractical or impossible, the distributions will be directed to similar purposes in the community. At December 31, 2010 and 2009 the statements of financial position include a liability for agency transfers at the fair value of the assets held for the benefit of not-for-profit organizations in the amount of approximately \$14,878,000 and \$14,532,000, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE J--FAIR VALUE MEASUREMENTS

The following methods and assumptions were used to estimate the fair value of assets and liabilities in the financial statements and to determine the resulting classification within the fair value hierarchy.

Cash and Cash Equivalents: Cash and cash equivalents are stated at fair value based on quoted market prices and accordingly are classified as Level 1 in the fair value hierarchy.

Investments:

Cash and short-funds, common and preferred stocks, U.S. Treasury obligations, U.S. government sponsored enterprise obligations, corporate bonds, municipal bonds, and mutual funds are stated at fair value based on quoted market prices when available and are classified as Level 1 in the fair value hierarchy. When documented trade histories are not available, the Foundation determines fair values using a discounted cash flow model and classifies the assets as Level 2 in the fair value hierarchy. The key inputs to the discounted cash flow model are the coupon, yield, and expected maturity date.

Common funds, pooled funds, hedge funds, and other alternative investments are carried at fair value based on the net asset value ("NAV") of the fund as provided by the fund manager. In most cases the fair value is determined by the fund manager using the market approach but in certain circumstances such as when the fund is in liquidation are valued using the income approach. If the fair value of the underlying assets are transparent and have readily determinable fair values and the Foundation can redeem the investment at NAV at the measurement date, the funds are classified as Level 2. In all other cases, the investments are classified as Level 3.

Partnership interests are carried at fair value using either the market or income approach. Approximately 90 % of the fair value at December 31, 2010 and 2009 is based on one limited partnership interest which was valued through independent appraisal using a discounted cash flow model and accordingly is classified as Level 3.

Pledges Receivable: The carrying amount of receivables is based on the discounted value of the expected future cash flows, which approximates fair value.

Beneficial Interests in Perpetual Trusts: The asset is carried at fair value using the market approach and is based on the fair value of the underlying trust assets adjusted for the Foundation's allocable portion and is classified as Level 3 in the fair value hierarchy.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE J--FAIR VALUE MEASUREMENTS--Continued

Beneficial Interests in Charitable Lead Trusts: The asset is carried at fair value using the income approach and is based on the present value of the amounts which the Foundation expects to receive over the term of the agreements using a discount rate that reflects the assumptions that are consistent with those inherent in determining the cash flows and are classified as Level 3 in the fair value hierarchy

Other Receivables: The asset's carrying amount approximates fair value due to the short maturity of those amounts.

Grants and Program Services Payable: The liabilities' carrying amount is based on the discounted value of the expected future cash distributions which approximates fair value.

Account Payable and Other Liabilities: The liabilities' carrying amount approximates fair value due to the short maturity of those amounts.

Liability for agency transfers: The liability is carried at fair value using the market approach and is based on the fair value of the assets held by the Foundation for the benefit of the recipient agency. As there is no market for a similar liability and the principal inputs (i.e., fair value of assets held in various investment pools which include holdings in Level 3 investments, pledges receivable, and grants payable) are dependent upon management's fair value estimates and allocations, the Foundation classifies the liability for agency transfers as Level 3.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE J--FAIR VALUE MEASUREMENTS--Continued

Assets and liabilities measured at fair value on a recurring basis are classified within the fair value hierarchy as follows:

	As of December 31, 2010			
	Level 1	Level 2	Level 3	Total
ASSETS				
Cash and cash equivalents	\$ 294,525	\$ -	\$ -	\$ 294,525
Investments:				
Marketable securities:				
Cash and short-term funds	\$ 31,225,842	\$ -	\$ -	\$ 31,225,842
Common and preferred stocks:				
Domestic	9,978,741	-	-	9,978,741
Foreign	4,075,618	-	-	4,075,618
U. S. Treasury	1,834,723	-	-	1,834,723
U.S. Government sponsored enterprise	100,827	-	-	100,827
Corporate bonds	322,851	7,138	-	329,989
Municipal bonds	17,351	401,601	-	418,952
Mutual funds				
Fixed income funds				
Index funds	21,833,552	-	-	21,833,552
Government, agency, corporate obligations	8,417,668	-	-	8,417,668
Other	259,083	-	-	259,083
Equity funds				
Index funds	44,392,328	-	-	44,392,328
Other	2,548,095	-	-	2,548,095
Commodity funds	1,164,028	-	-	1,164,028
Asset allocation funds	1,479,664	-	-	1,479,664
Total marketable securities	127,650,371	408,739	-	128,059,110
Non-marketable securities:				
Common, pooled, and hedge funds:				
Energy funds	-	-	1,655,395	1,655,395
Equity funds	-	1,953,163	1,961,924	3,915,087
Fixed income funds	-	-	1,202,749	1,202,749
REIT	-	-	348,072	348,072
Funds of funds	-	412,886	2,446,378	2,859,264
Futures funds	-	-	478,352	478,352
Income funds	-	-	1,267,141	1,267,141
Other funds	-	-	83,736	83,736
Pooled funds	-	-	7,627,631	7,627,631
Partnership interests	-	-	980,659	980,659
Total non-marketable investments	-	2,366,049	18,052,037	20,418,086
Total investments	\$ 127,650,371	\$ 2,774,788	\$ 18,052,037	\$ 148,477,196
Beneficial interest in perpetual trusts	\$ -	\$ -	\$ 18,975,909	\$ 18,975,909
Beneficial interest in charitable lead trusts	\$ -	\$ -	\$ 2,190,247	\$ 2,190,247
Total assets at fair value	\$ 127,944,896	\$ 2,774,788	\$ 39,218,193	\$ 169,937,877
LIABILITIES				
Liability for agency transfers	\$ -	\$ -	\$ 14,878,489	\$ 14,878,489

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE J--FAIR VALUE MEASUREMENTS--Continued

	As of December 31, 2009			
	Level 1	Level 2	Level 3	Total
ASSETS				
Cash and cash equivalents	\$ 380,601	\$ -	\$ -	\$ 380,601
Investments:				
Cash and short-term funds	29,223,784	-	-	29,223,784
Fixed income	31,801,829	-	-	31,801,829
Domestic equities	37,554,247	-	-	37,554,247
International equities	14,093,271	-	-	14,093,271
Hedge funds	-	-	3,531,596	3,531,596
Common funds and pooled investments	-	-	8,023,914	8,023,914
Limited partnerships	-	-	980,659	980,659
Total investments	112,673,131	-	12,536,169	125,209,300
Beneficial interest in perpetual trusts				
Beneficial interest in charitable lead trusts	-	-	17,432,410	17,432,410
Total assets accounted for at fair value	<u>-</u>	<u>-</u>	<u>2,255,054</u>	<u>2,255,054</u>
	<u>\$ 196,122,478</u>	<u>\$ -</u>	<u>\$ 44,759,802</u>	<u>\$ 240,882,280</u>
LIABILITIES				
Liability for agency transfers	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,531,757</u>	<u>\$ 14,531,757</u>
Total liabilities accounted for at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,531,757</u>	<u>\$ 14,531,757</u>

The Foundation accounts for transfers between the levels within the fair value hierarchy at the beginning of the reporting period. Non-marketable securities totaling \$1,123,300 at January 1, 2010 used Level 3 inputs at December 31, 2009 and Level 2 inputs at December 31, 2010. The change in input levels was due to additional information regarding the transparency and related fair values of the underlying assets in two funds. Furthermore in 2009, the Foundation's pooled fund was allocated by asset category and \$1,347,627 was classified as cash and short-term funds. In 2010, the entire investment in the limited partnership is classified as pooled funds.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE J--FAIR VALUE MEASUREMENTS--Continued

The following table summarizes the changes in the fair value of the Foundation's Level 3 financial assets and liabilities for the period ending December 31, 2010:

	Assets						
	Energy Funds	Equity Funds	Fixed Income Funds	REIT	Fund of Funds	Futures Funds	Income Funds
Balance at January 1, 2010	\$ -	\$ 2,430,415	\$ 520,935	\$ 106,054	\$ 2,615,774	\$ -	\$ 1,017,853
Investment income	-	33,452	61,852	10,684	-	-	45,992
Net realized gains (losses)	-	75,254	41,188	(957)	-	-	37,124
Net unrealized gains	(75,043)	49,991	(65,226)	59,291	220,716	9,703	10,172
Transfer to Level 2	-	(733,188)	-	-	(390,112)	-	-
Sales of investments	-	-	-	-	-	-	-
Purchases	1,730,438	106,000	644,000	173,000	-	468,649	156,000
Balance at December 31, 2010	\$ 1,655,395	\$ 1,961,924	\$ 1,202,749	\$ 348,072	\$ 2,446,378	\$ 478,352	\$ 1,267,141

	Assets					Liabilities
	Other Funds	Pooled Funds	Partnership Interests	Beneficial Interest in Perpetual Trusts	Beneficial Interest in Charitable Lead Trusts	Liability for Agency Transfers
Balance at January 1, 2010	\$ 915,822	\$ 5,296,284	\$ 980,659	\$ 17,432,410	\$ 2,255,054	\$ 14,531,757
Investment income	-	226,920	-	-	-	113,129
Net realized gains (losses)	(184,095)	83,393	-	-	-	218,635
Net unrealized gains	35,819	945,429	-	-	-	361,350
Change in value of beneficial interest in perpetual trusts	-	-	-	1,543,499	-	-
Change in value of beneficial interest in charitable lead trusts	-	-	-	-	168,529	-
Distributions	-	-	-	-	(233,336)	(1,647,492)
Contributions	-	-	-	-	-	1,301,110
Sales of investments	(683,810)	(4,259,620)	-	-	-	-
Purchases	-	5,335,225	-	-	-	-
Balance at December 31, 2010	\$ 83,736	\$ 7,627,631	\$ 980,659	\$ 18,975,909	\$ 2,190,247	\$ 14,878,489

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE J--FAIR VALUE MEASUREMENTS--Continued

The following table summarizes the changes in the fair value of the Foundation's Level 3 financial assets and liabilities for the period ending December 31, 2009:

	Assets					Liabilities
	Hedge Funds	Common Funds and Pooled Investments	Partnership Interests	Beneficial Interest in Perpetual Trusts	Beneficial Interest in Charitable Lead Trusts	Liability for Agency Transfers
Balance at January 1, 2009	\$ 4,007,904	\$ 7,667,240	\$ 435,558	\$ 15,662,885	\$ 3,038,945	\$ 3,959,521
Investment income	-	337,602	50,011	-	-	103,563
Net realized gains (losses)	(65,637)	(821,572)	-	-	-	1,207
Net unrealized gains	500,899	1,785,887	550,200	-	-	685,248
Change in value of beneficial interest in perpetual trusts	-	-	-	1,769,525	-	-
Change in value of beneficial interest in charitable lead trusts	-	-	-	-	(513,791)	-
Distributions	-	-	-	-	(270,100)	(322,514)
Contributions	-	-	-	-	-	10,104,732
Sales of investments	(911,570)	(2,735,344)	(55,110)	-	-	-
Purchases	-	1,790,101	-	-	-	-
Balance at December 31, 2009	<u>\$ 3,531,596</u>	<u>\$ 8,023,914</u>	<u>\$ 980,659</u>	<u>\$ 17,432,410</u>	<u>\$ 2,255,054</u>	<u>\$ 14,531,757</u>

The summary of changes in fair value of Level 3 assets have been prepared to reflect the same categories as those used in the statements of activities and cash flows, except that the net realized and unrealized gains and losses presented above are combined in the statements of activities as net investment gains (losses).

The summary of changes in fair value of the Level 3 liability for agency transfers have been prepared to reflect the same categories as those used in the statements of activities, except that the net realized and unrealized gains and losses presented above are combined and all of the activity in the liability is also included in the respective "agency transfers" amount in the statements of activities. The end result is that none of the activity is included in the Foundation's change in net assets because all activity directly impacts the carrying value of the asset and the liability for agency transfers and do not flow through to net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE J--FAIR VALUE MEASUREMENTS--Continued

The Foundation's investments in certain entities that calculate net asset value per share include the following at December 31, 2010:

	<u>Fair Value</u>	<u>Redemption or Liquidity</u>	<u>Days' Notice</u>
Energy funds	\$ 1,655,395	Monthly	10
Equity funds	3,915,087	Daily	1-3
Fixed income funds	1,202,749	Daily	One
REIT	348,072	Daily	One
Funds of funds			
Equities - Global	1,712,393	Semi-Annual	100
Equities - Domestic	412,886	Monthly	45
Distressed	150,865	Annual	Limited
Hedge fund	583,120	Liquidating	N/A
Futures funds	478,352	Monthly	3-10
Income funds	1,267,141	Daily	One
Other funds	83,736	Various	Various
Pooled funds	7,627,631	Annual	Five

At December 31, 2010, the Foundation had no remaining lock-up periods or unfunded commitments for any of its investments. A summary of the significant investment strategies and additional relevant information for investments carried at NAV are summarized as follows:

Energy funds: There are two funds in this classification and both invest substantially all of their assets in a master fund. The master funds seek to achieve capital appreciation through speculative trading, directly or indirectly, in energy related commodity interests, including, commodity futures and commodity option contracts traded on United States exchanges and certain foreign exchanges and swaps.

Equity funds: This class of investments consists of three funds which seek to achieve capital appreciation through investment in various equity based securities. Two of the funds with a combined fair value of \$1,961,924 invest primarily in small to large cap stocks in both developed and emerging markets. The other fund invests in exchange and NASDAQ traded U.S. and foreign equities with a market capitalization of at least \$500 million.

Fixed income funds: This class consists of two funds. One of the funds with a fair value of \$441,351 is a high yield bond fund which seeks to generate high total returns by investing in non-investment grade debt of U.S. companies. The other fund with a fair value of \$761,398 is an intermediate risk bond fund which seeks to maximize total return through investment in investment grade bonds of domestic corporations and government issues.

REIT: This class of investments includes one fund which invests in approximately fifty to seventy-five publicly traded real estate securities.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE J--FAIR VALUE MEASUREMENTS--Continued

Fund of funds: This class of investments consists of four different funds. One of the funds with a fair value of \$1,712,393 at December 31, 2010 invests in underlying investment funds which employ a variety of strategies including long/short equity and use of derivatives on a global basis. The other three funds invest in underlying funds which operate as hedge funds investing in distressed securities, subprime mortgages, real estate others funds with a focus in the domestic markets. In addition, the liquidation of the distressed fund is limited to tender offers from the general partner which are generally made on an annual basis.

Futures funds: There are two funds in this class and both seek to achieve capital appreciation through the speculative trading of futures interests, including commodities, currencies, securities, mortgage-backed obligations, and other financial instruments. The funds may also enter into options on futures and forward contracts.

Income funds: This class of investments invests in dividend-paying common stocks, preferred stocks, convertibles securities, partnerships, trusts, and selected debt instruments. This fund focuses on companies with strong cash flow that are sufficient to support a sustainable or rising dividend.

Other funds: This class of investments consists of three funds. The funds invest in a variety of strategies including long/short equity and use of derivatives primarily focusing on foreign equities and returns that are not dependent on S&P 500 or any other market index. At December 31, 2010, these three funds have suspended all investment activity and are in the process of liquidating the assets.

Pooled fund: This class of investments consists of interest in one limited partnership which invests in five pooled funds. The pooled funds include one aggressive growth fund with a fair value of \$157,619 which seeks long-term capital appreciation through investment in domestic and international equity funds. Another pool with a fair value of \$1,636,349 seeks moderate appreciation through investment in domestic stock and bond funds. The third fund with a fair value of \$3,728,661 emphasizes a balanced approach intended to achieve a positive return over the long-term, as well as support ongoing cash flow requirements through investment in both stocks and bonds that are broadly diversified. The fourth fund with a fair value of \$35,276 takes a risk-averse balanced approach and utilizes a stable and substantial source of current income and some capital appreciation over the long-term through investment in low-volatility fixed income instruments and some (25% target) stocks for long-term growth. The money market fund with a fair value of \$2,069,726 is swept into one or more interest-bearing deposit accounts through two banks and its benchmark is the 90 day treasury bill.

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE K--ENDOWMENT DISCLOSURES

Endowment net asset composition by type of fund is as follows at December 31:

	<u>Unrestricted</u>	
	<u>2010</u>	<u>2009</u>
Board-designated endowment funds		
Advised	\$ 1,497,345	\$ 1,365,799
Designated	19,055,996	18,619,283
Field of interest	21,379,966	18,082,681
Scholarship	677,230	613,748
Undesignated	<u>14,165,488</u>	<u>13,240,873</u>
Total Endowment Funds	<u>\$ 56,776,025</u>	<u>\$ 51,922,384</u>

Changes in endowment net assets are as follows:

	<u>Unrestricted</u>	
	<u>2010</u>	<u>2009</u>
Endowment net assets, beginning of year	\$ 51,922,384	\$ 32,983,739
Investment return		
Interest and dividends	1,323,677	1,258,224
Rent and royalty income	166,852	171,578
Net investment gains (losses)	5,192,808	6,682,740
Investment fees	<u>(70,797)</u>	<u>(43,199)</u>
	6,612,540	8,069,343
Contributions	781,202	13,477,714
Appropriations for expenditure	(1,915,011)	(2,213,997)
Administrative fees	<u>(625,090)</u>	<u>(394,415)</u>
Endowment net assets, end of year	<u>\$ 56,776,025</u>	<u>\$ 51,922,384</u>

NOTES TO FINANCIAL STATEMENTS--Continued

THE DALLAS FOUNDATION

December 31, 2010

NOTE K--ENDOWMENT DISCLOSURES--Continued

Return Objectives and Risk Parameters, Strategies Employed for Achieving Objectives, and Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve these objectives. Generally, the Foundation follows a spending policy of 5% of total assets calculated over twelve-quarters, which based on the expected rate of return is designed to ensure preservation of capital. The investment policy establishes an achievable long-term return objective through diversification of asset classes.

To achieve its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). 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.