

Financial Statements and Report of Independent Certified Public Accountants

United Way Foundation of Metropolitan Dallas

June 30, 2011 and 2010



Report of Independent Certified Public Accountants

Audit • Tax • Advisory
Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, TX 75201-4667
T 214.561.2300
F 214.561.2370
www.GrantThornton.com

To the Board of Directors of
United Way Foundation of Metropolitan Dallas

We have audited the accompanying statements of financial position of United Way Foundation of Metropolitan Dallas (the "Foundation") as of June 30, 2011 and 2010, 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 as established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 United Way Foundation of Metropolitan Dallas as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Dallas, Texas
October 20, 2011

United Way Foundation of Metropolitan Dallas

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS	<u>2011</u>	<u>2010</u>
Cash	\$ 9,491	\$ 178,138
Investments, at fair value	20,114,487	15,956,044
Pledges receivable, net	<u>500,041</u>	<u>721,484</u>
Total assets	<u>\$20,624,019</u>	<u>\$16,855,666</u>
LIABILITIES AND NET ASSETS		
Due to UWMD	\$ 52,877	\$ -
Commitments and contingencies		
Net assets		
Unrestricted	17,970,078	14,222,351
Temporarily restricted	518,417	563,816
Permanently restricted	<u>2,082,647</u>	<u>2,069,499</u>
Total net assets	<u>20,571,142</u>	<u>16,855,666</u>
Total liabilities and net assets	<u>\$20,624,019</u>	<u>\$16,855,666</u>

The accompanying notes are an integral part of these statements.

United Way Foundation of Metropolitan Dallas

STATEMENT OF ACTIVITIES

Year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenue				
Contributions	\$ 16,205	\$ 3,934	\$ 13,148	\$ 33,287
Net realized and unrealized gain on investments	3,117,056	254,418	-	3,371,474
Interest and dividends	428,152	47,879	-	476,031
Net assets released for satisfaction of time restrictions	230,157	(230,157)	-	-
Net assets released for satisfaction of purpose restrictions	<u>11,274</u>	<u>(11,274)</u>	<u>-</u>	<u>-</u>
Total revenue	3,802,844	64,800	13,148	3,880,792
Expenses				
Support services				
Fundraising	69,242	-	-	69,242
Management and general	<u>96,074</u>	<u>-</u>	<u>-</u>	<u>96,074</u>
Total support services	<u>165,316</u>	<u>-</u>	<u>-</u>	<u>165,316</u>
Total expenses	165,316	-	-	165,316
Transfers	<u>110,199</u>	<u>(110,199)</u>	<u>-</u>	<u>-</u>
Change in net assets	3,747,727	(45,399)	13,148	3,715,476
Net assets, beginning of year	<u>14,222,351</u>	<u>563,816</u>	<u>2,069,499</u>	<u>16,855,666</u>
Net assets, end of year	<u>\$17,970,078</u>	<u>\$ 518,417</u>	<u>\$2,082,647</u>	<u>\$20,571,142</u>

The accompanying notes are an integral part of these statements.

United Way Foundation of Metropolitan Dallas

STATEMENT OF ACTIVITIES

Year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenue				
Contributions	\$ 734,990	\$ -	\$ 6,262	\$ 741,252
Net realized and unrealized gain on investments	1,042,060	42,012	-	1,084,072
Interest and dividends	438,460	1,523	-	439,983
Net assets released for satisfaction of purpose restrictions	<u>2,324</u>	<u>(2,324)</u>	<u>-</u>	<u>-</u>
Total revenue	2,217,834	41,211	6,262	2,265,307
Expenses				
Support services				
Fundraising	105,000	-	-	105,000
Management and general	<u>98,387</u>	<u>-</u>	<u>-</u>	<u>98,387</u>
Total support services	<u>203,387</u>	<u>-</u>	<u>-</u>	<u>203,387</u>
Total expenses	<u>203,387</u>	<u>-</u>	<u>-</u>	<u>203,387</u>
Change in net assets	2,014,447	41,211	6,262	2,061,920
Net assets, beginning of year	<u>12,207,904</u>	<u>522,605</u>	<u>2,063,237</u>	<u>14,793,746</u>
Net assets, end of year	<u>\$14,222,351</u>	<u>\$563,816</u>	<u>\$2,069,499</u>	<u>\$16,855,666</u>

The accompanying notes are an integral part of these statements.

United Way Foundation of Metropolitan Dallas

STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ 3,715,476	\$ 2,061,920
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Proceeds from contributions restricted for long-term purposes	(225,000)	(200,000)
Net realized and unrealized gain on investments	(3,371,474)	(1,084,072)
Changes in assets and liabilities		
Pledges receivable	221,443	293,636
Due to UWMD	<u>52,877</u>	<u>-</u>
Net cash provided by operating activities	393,322	1,071,484
Cash flows from investing activities		
Purchases of investments	(1,991,383)	(22,313,854)
Proceeds from sales or maturities of investments	<u>1,204,414</u>	<u>21,180,310</u>
Net cash used in investing activities	(786,969)	(1,133,544)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term purposes	<u>225,000</u>	<u>200,000</u>
Net (decrease) increase in cash	(168,647)	137,940
Cash, beginning of year	<u>178,138</u>	<u>40,198</u>
Cash, end of year	<u>\$ 9,491</u>	<u>\$ 178,138</u>

The accompanying notes are an integral part of these statements.

United Way Foundation of Metropolitan Dallas

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2011 and 2010

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The United Way Foundation of Metropolitan Dallas (the "Foundation"), a Texas nonprofit corporation, was founded in 1999 exclusively for the purpose of receiving gifts, grants, and bequests in order to establish an endowment fund for the long-term benefit of the United Way of Metropolitan Dallas, Inc. (the "United Way"). The Foundation is governed by a volunteer Board of Directors, which is appointed by the Board of Directors of the United Way. The Foundation receives both restricted gifts and unrestricted gifts. However, the Board's intent is to treat all unrestricted contributions to the Foundation as a permanent endowment whereby the corpus of these gifts is held in perpetuity and only the earnings are spent. For reporting purposes, the Foundation is consolidated in the United Way's financial statements.

Basis of Presentation

The accompanying financial statements of the Foundation are prepared on the accrual basis of accounting.

Cash

At June 30, 2011 and 2010, cash deposits held within a single financial institution did not exceed the federally insured limit.

Investments

Investments are carried at fair value, which is determined based on quoted market prices. Realized and unrealized gains and losses are reflected in the statements of activities. Gains and losses on sales transactions are recorded when realized based on the original cost (amortized in the case of bonds) of the investments sold based on the specific identification method. Earnings from investments are recorded as interest and dividends and are reflected in the statements of activities.

Pledges Receivable and Contributions

Contributions are recorded at their estimated fair value when received.

Unconditional promises to give are recorded as pledges receivable and contribution revenue when the promise is made. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible pledges is estimated based on recent historical experience, as well as other factors anticipated to affect collections. Provisions for losses, if any, are charged to change in net assets and credited to the allowance. There was no allowance for contributions receivable as of June 30, 2011 and 2010.

United Way Foundation of Metropolitan Dallas

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended June 30, 2011 and 2010

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued**

Income Taxes

The Foundation has received a tax-exempt ruling from the Internal Revenue Service under Internal Revenue Code Section 501(c)(3). However, income generated from activities unrelated to the exempt purpose of the Foundation is subject to tax. The Foundation had no unrelated business income during 2011 or 2010. Contributions to the Foundation are tax-deductible within the limitations prescribed by law. No tax accrual for uncertain tax positions was recorded as management believes there are no uncertain tax positions for the Foundation.

Unrestricted Net Assets

Contributions received from third parties that are not restricted as to use or for which the donor-imposed restrictions have been fulfilled are reported as unrestricted net assets in the accompanying financial statements. Unrestricted net assets are available to cover operating expenses and grants to the United Way.

Temporarily Restricted Net Assets

Contributions received from third parties with donor stipulations that limit the use of the donated assets, either by purpose or time restriction, are reported as temporarily restricted net assets in the accompanying financial statements. When the applicable restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions. Contributions received with temporary restrictions which are satisfied in the same reporting period are accounted for as described above and are included in net assets released from restrictions in the accompanying statements of activities. As of June 30, 2011 and 2010, all temporarily restricted net asset balances are restricted for use in a future time period.

Permanently Restricted Net Assets

Contributions received from third parties that are restricted such that the original gift (or principal) must be maintained in perpetuity, such as an endowment fund, are reported as permanently restricted net assets in the accompanying financial statements. For such contributions, only the income earned on the original principal is available for use according to donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

United Way Foundation of Metropolitan Dallas

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended June 30, 2011 and 2010

NOTE B - INVESTMENTS

The Foundation records its financial instruments in accordance with the fair value guidance as established by the Financial Accounting Standard Board ("FASB"). In accordance with this guidance, fair value is defined as the price the Foundation would receive from the sale of an asset, or pay to transfer a liability, in a timely transaction with an independent buyer in a principal market. This guidance establishes a three-tier hierarchy to distinguish between various types of inputs used in determining the value of the Foundation's investment and liabilities. The inputs are summarized in three levels as outlined below:

Level 1 Inputs - Quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 assets include fixed income mutual funds, equity mutual funds and money market funds. Valuations of these instruments do not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.

Level 2 Inputs - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying assumptions.

Level 3 Inputs - Unobservable inputs for the valuation of the asset or liability. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgment or estimation. These financial instruments have inputs that cannot be validated by readily determinable market data and generally involve considerable judgment by management.

The Foundation does not have Level 2 or 3 assets or liabilities.

The fair value of investments at June 30 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Equity mutual funds	\$14,681,060	\$10,893,983
Fixed income mutual funds	5,430,106	5,054,508
Money market funds	<u>3,321</u>	<u>7,553</u>
Total	<u>\$20,114,487</u>	<u>\$15,956,044</u>

A professional investment advisor manages the investments with periodic review by the management of the United Way and approval by the Foundation Board. Investment fees of \$32,848 and \$28,387 were incurred for the years ending June 30, 2011 and 2010, respectively, and are included in management and general expenses in the accompanying statements of activities. Management of the United Way does not believe these investments pose unusual market or credit risks.

United Way Foundation of Metropolitan Dallas

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended June 30, 2011 and 2010

NOTE C - ENDOWMENT FUNDS

The Foundation's endowment consists of individual endowment funds established for the exclusive purpose of operating for the benefit of United Way. The endowment includes funds that are both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Unrestricted endowment funds represent those funds designated by the Board at the inception of the endowment plus general public contributions.

Interpretation of Relevant Law

The Foundation interprets the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") enacted by the State of Texas as allowing the Foundation, absent donor stipulations to the contrary as stated in the gift instrument, to appropriate as much of a donor-restricted endowment fund as the Board determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established.

The following factors are considered in making a determination to appropriate or accumulate donor restricted endowment funds: 1) the duration and preservation of the fund; 2) the purposes of the donor restricted endowment fund; 3) general economic conditions; 4) the possible effect of inflation and deflation; 5) the expected total return from income and the appreciation of investments; and 6) other resources of the Foundation.

Endowment net asset composition by type of fund consists of the following as of June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (54,207)	\$291,022	\$2,082,647	\$ 2,319,462
Board-designated endowment funds	<u>18,024,285</u>	<u>-</u>	<u>-</u>	<u>18,024,285</u>
Total endowment net assets	<u>\$17,970,078</u>	<u>\$291,022</u>	<u>\$2,082,647</u>	<u>\$20,343,747</u>

United Way Foundation of Metropolitan Dallas

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended June 30, 2011 and 2010

NOTE C - ENDOWMENT FUNDS - Continued

Changes in endowment net assets for the year ended June 30, 2011, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$14,222,351	\$ -	\$2,069,499	\$16,291,850
Investment return:				
Investment income	428,152	47,879	-	476,031
Net appreciation (unrealized and realized)	<u>3,117,056</u>	<u>254,418</u>	<u>-</u>	<u>3,371,474</u>
Total investment return	3,545,208	302,297	-	3,847,505
Contributions	16,205	3,934	13,148	33,287
Reclassifications and other	-	336,421	-	336,421
Transfer	340,356	(340,356)	-	-
Appropriation of assets for expenditure	<u>(154,042)</u>	<u>(11,274)</u>	<u>-</u>	<u>(165,316)</u>
Endowment net assets, end of year	<u>\$17,970,078</u>	<u>\$ 291,022</u>	<u>\$2,082,647</u>	<u>\$20,343,747</u>

Endowment net asset composition by type of fund consists of the following as of June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (158,383)	\$ -	\$2,069,499	\$ 1,911,116
Board-designated endowment funds	<u>14,380,734</u>	<u>-</u>	<u>-</u>	<u>14,380,734</u>
Total endowment net assets	<u>\$14,222,351</u>	<u>\$ -</u>	<u>\$2,069,499</u>	<u>\$16,291,850</u>

United Way Foundation of Metropolitan Dallas

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended June 30, 2011 and 2010

NOTE C - ENDOWMENT FUNDS - Continued

Changes in endowment net assets for the year ended June 30, 2010, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$12,207,904	\$ -	\$2,063,237	\$14,271,141
Investment return:				
Investment income	438,460	-	-	438,460
Net appreciation (unrealized and realized)	<u>1,042,060</u>	<u>-</u>	<u>-</u>	<u>1,042,060</u>
Total investment return	1,480,520	-	-	1,480,520
Contributions	734,990	-	6,262	741,252
Appropriation of assets for expenditure	<u>(201,063)</u>	<u>-</u>	<u>-</u>	<u>(201,063)</u>
Endowment net assets, end of year	<u>\$14,222,351</u>	<u>\$ -</u>	<u>\$2,069,499</u>	<u>\$16,291,850</u>

Return Objective and Risk Parameters

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. Endowments include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation. The Foundation's investment objectives are to generate sufficient long-term growth of capital without undue exposure to risk, to provide for spending distributions when needed, and to enhance the real purchasing power of the investments.

United Way Foundation of Metropolitan Dallas

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended June 30, 2011 and 2010

NOTE C - ENDOWMENT FUNDS - Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy

The primary long-term management objective of the Foundation's board-designated and donor-restricted endowment funds (the "Endowment Fund") is to ensure safety and preservation of principal, achieve a satisfactory risk – adjusted total rate of return on assets under management, maintain sufficient liquidity to meet operating and distribution needs, and seek at all times to maintain public trust by adhering to the above stated objectives. The spending policy is a maximum of 2% of the total fair value of the Endowment Fund. Effective, September 21, 2010, the spending policy is a maximum of 5% of the twelve quarter rolling average of the portfolio's market value, or the most recent quarter's closing market value whichever is lower. Other funds may be appropriated as deemed necessary by the Board from time to time.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. The aggregate amount of funds that had fallen below their original gift value was \$54,207 and \$158,383 as of June 30, 2011 and 2010.

NOTE D - PLEDGES RECEIVABLE

Pledges receivable as of June 30, 2011 are summarized as follows:

	Pledges due in less than <u>one year</u>	Pledges due within <u>1 to 5 years</u>	Total pledges receivable
Permanently restricted	\$100,000	\$200,000	\$300,000
Temporarily restricted	121,577	125,000	246,577
Less unamortized present value discount	<u>(13,523)</u>	<u>(33,013)</u>	<u>(46,536)</u>
Pledges receivable, net	<u>\$208,054</u>	<u>\$291,987</u>	<u>\$500,041</u>

United Way Foundation of Metropolitan Dallas

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Years ended June 30, 2011 and 2010

NOTE D - PLEDGES RECEIVABLE - Continued

Pledges receivable as of June 30, 2010 are summarized as follows:

	Pledges due in less than <u>one year</u>	Pledges due within <u>1 to 5 years</u>	Total pledges <u>receivable</u>
Permanently restricted	\$100,000	\$300,000	\$400,000
Temporarily restricted	125,000	250,000	375,000
Less unamortized present value discount	<u>(7,082)</u>	<u>(46,434)</u>	<u>(53,516)</u>
Pledges receivable, net	<u>\$217,918</u>	<u>\$503,566</u>	<u>\$721,484</u>

The rate used for calculation of the discount was 3.25%.

NOTE E - SUBSEQUENT EVENTS

The Foundation has evaluated its financial statements for subsequent events through October 20, 2011, the date the financial statements were available to be issued. The Foundation is not aware of any such events which would require recognition or disclosure in the financial statements.