

**THE COMMUNITY FOUNDATION
OF THE TEXAS HILL COUNTRY, INC.**

FINANCIAL STATEMENTS

December 31, 2016 and 2015

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Massey • Itschner
& Company, P.C.

CERTIFIED PUBLIC
ACCOUNTANTS

Independent Auditor's Report

May 15, 2017

Board of Directors
The Community Foundation of the Texas Hill Country, Inc.
Kerrville, Texas

We have audited the accompanying statements of financial position of The Community Foundation of the Texas Hill Country, Inc. (a non-profit organization) as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation of the Texas Hill Country, Inc. as of December 31, 2016 and 2015, 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.


CERTIFIED PUBLIC ACCOUNTANTS

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THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2016	2015
Cash and cash equivalents	\$ 1,948,994	\$ 1,574,625
Accrued interest receivable	23,982	28,367
Investments	16,993,794	15,654,478
Life insurance - cash surrender value	31,071	30,368
Property and equipment, net	9,075	7,767
	<u>\$ 19,006,916</u>	<u>\$ 17,295,605</u>

LIABILITIES AND NET ASSETS

Liabilities		
Grants payable	\$ 98,875	\$ 155,850
Accounts payable	5,076	2,648
Funds held as agency endowments	4,431,448	3,297,043
	<u>4,535,399</u>	<u>3,455,541</u>
Net assets:		
Unrestricted	9,931,733	9,795,065
Temporarily restricted	2,081,975	1,770,392
Permanently restricted	2,457,809	2,274,607
	<u>14,471,517</u>	<u>13,840,064</u>
	<u>\$ 19,006,916</u>	<u>\$ 17,295,605</u>

The accompanying notes are an integral part of these financial statements.

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Contributions	\$ 2,189,705	\$ 271,708	\$ 203,895	\$ 2,665,308
Investment income, net	552,356	375,319	-	927,675
Oil royalties	12,658	254	-	12,912
Gala and special events	21,629	-	-	21,629
Management fees charged to agency funds	33,660	-	-	33,660
	<u>2,810,008</u>	<u>647,281</u>	<u>203,895</u>	<u>3,661,184</u>
Total revenues and gains				
Net assets released from restrictions	<u>356,391</u>	<u>(335,698)</u>	<u>(20,693)</u>	<u>-</u>
	<u>3,166,399</u>	<u>311,583</u>	<u>183,202</u>	<u>3,661,184</u>
Total revenues, gains and other support				
Expenses				
Program expenses				
Grants	2,517,672	-	-	2,517,672
Scholarships	63,700	-	-	63,700
Other program expenses	149,136	-	-	149,136
Management and general	234,736	-	-	234,736
Fundraising	64,486	-	-	64,486
	<u>3,029,731</u>	<u>-</u>	<u>-</u>	<u>3,029,731</u>
Change in net assets	136,668	311,583	183,202	631,453
Net assets at beginning of year	<u>9,795,065</u>	<u>1,770,392</u>	<u>2,274,607</u>	<u>13,840,064</u>
Net assets at end of year	<u>\$ 9,931,733</u>	<u>\$ 2,081,975</u>	<u>\$ 2,457,809</u>	<u>\$ 14,471,517</u>

The accompanying notes are an integral part of these financial statements.

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Contributions	\$ 2,813,159	\$ 604,402	\$ 320,865	\$ 3,738,426
Investment income, net	(81,667)	(10,690)	-	(92,357)
Oil royalties	11,067	709	-	11,776
Main street property rental income	14,000	-	-	14,000
Gala and special events	11,278	-	-	11,278
Management fees charged to agency funds	29,988	-	-	29,988
	<u>2,797,825</u>	<u>594,421</u>	<u>320,865</u>	<u>3,713,111</u>
Total revenues and gains				
	2,797,825	594,421	320,865	3,713,111
Net assets released from restrictions	<u>1,339,594</u>	<u>(1,326,159)</u>	<u>(13,435)</u>	<u>-</u>
Total revenues, gains and other support	<u>4,137,419</u>	<u>(731,738)</u>	<u>307,430</u>	<u>3,713,111</u>
Expenses				
Program expenses				
Grants	1,242,587	-	-	1,242,587
Scholarships	85,025	-	-	85,025
Other program expenses	177,451	-	-	177,451
Management and general	242,205	-	-	242,205
Fundraising	48,431	-	-	48,431
	<u>1,795,699</u>	<u>-</u>	<u>-</u>	<u>1,795,699</u>
Change in net assets	2,341,720	(731,738)	307,430	1,917,412
Net assets at beginning of year	<u>7,453,345</u>	<u>2,502,130</u>	<u>1,967,177</u>	<u>11,922,652</u>
Net assets at end of year	<u>\$ 9,795,065</u>	<u>\$ 1,770,392</u>	<u>\$ 2,274,607</u>	<u>\$ 13,840,064</u>

The accompanying notes are an integral part of these financial statements.

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 631,453	\$ 1,917,412
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	1,180	12,202
Noncash grant of fixed assets	-	612,664
Noncash contribution of assets	(378,870)	(2,678,787)
Unrealized and realized (gains) on investments	(657,224)	352,904
Change in assets and liabilities:		
Promises to give	-	-
Prepaid expenses	-	-
Accrued interest receivable	4,385	(9,205)
Cash surrender value adjustment	(703)	(950)
Accounts payable and accrued expenses	2,428	2,648
Grants payable	(56,975)	5,875
Deferred revenue	-	-
Net additions to funds held as agency endowments	1,134,405	1,007,230
Net cash provided (used) by operating activities	<u>680,079</u>	<u>1,221,993</u>
Cash flows from investing activities:		
Purchases of fixed assets	-	-
Purchases of securities	(4,971,002)	(4,748,542)
Proceeds from sale of securities	4,665,291	2,982,012
Net cash provided (used) by investing activities	<u>(305,711)</u>	<u>(1,766,530)</u>
Net increase (decrease) in cash and cash equivalents	374,368	(544,537)
Cash and cash equivalents at beginning of year	<u>1,574,625</u>	<u>2,119,162</u>
Cash and cash equivalents at end of year	<u>\$ 1,948,994</u>	<u>\$ 1,574,625</u>

The accompanying notes are an integral part of these financial statements.

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 1 – Nature of Activities

The Community Foundation of the Texas Hill Country, Inc. (Community Foundation) was organized in 1982 to receive and maintain funds and to award grants to assist in meeting the charitable, educational, civic and cultural needs in the Texas Hill Country, specifically in Kerr County and the communities of Fredericksburg, Harper, Stonewall, Comfort, Bandera, Medina and their outlying areas.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting – The financial statements of the Community Foundation have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, revenues are recognized when earned, and expenses are recognized when incurred.

Contributions to the Community Foundation are recorded in separate accounting funds (Funds), and each Fund is used exclusively for the charitable purpose(s) designated by the donor. The Board of Directors has the responsibility for both the investment and distribution of income and/or principle from each Fund for charitable purposes.

Basis of Presentation – The accompanying financial statements include the assets, net assets and financial activities of the Community Foundation. This standard requires that the organization report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (time restriction ends or purpose 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 restrictions.

Unrestricted Net Assets – Unrestricted net assets include contributions to the Community Foundation to fund charitable and educational grants and for general operating purposes. Unrestricted net assets also include the investment in equipment, net of accumulated depreciation.

Temporarily Restricted Net Assets – Temporarily restricted net assets include support restricted for use by donor stipulations that limit the use of the donated funds. When the time restriction stipulation ends or when the purpose 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 restrictions.

The net investment in land, buildings and improvements (net of accumulated depreciation on the buildings and improvements) are included in temporarily restricted net assets. The grant monies received to purchase these properties (Nonprofit Campus) were contingent upon ownership being retained by the Community Foundation for a minimum of 15 years. During 2015 these assets were returned to the original granting organization through a non-cash grant from the Foundation in the amount of \$612,664.

Permanently Restricted Net Assets – Permanently restricted net assets represent endowment funds where the principal amount of the contribution, gift, or bequest contained donor stipulations that the principal be maintained in perpetuity. Only the income from investments thereof may be expended either for general purposes (unrestricted) or for purposes specified by the donor (temporarily restricted).

Cash and Cash Equivalents – The Community Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents for purposes of the statement of cash flows exclude permanently restricted cash and cash equivalents.

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 2 – Summary of Significant Accounting Policies (continued)

Property and Equipment – Property and equipment are capitalized at cost or fair market value at date of gift, if donated. Contributions of cash that must be used to acquire property and equipment are reported as restricted support. The Community Foundation reports expirations of donor restrictions when the acquired assets are placed in service or as instructed by the donor. The Community Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are being depreciated over estimated useful lives using the straight-line method. The Community Foundation capitalizes all property and equipment acquisitions in excess of \$1,000.

Contributions and Support – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

Unconditional promises to give are recorded as received. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises to give at year-end.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received.

Investments – Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

The Community Foundation has significant investments in stocks, bonds, and mutual funds and is, therefore, subject to concentrations of credit risk. Investments are made by investment managers engaged by the Community Foundation, and the investments are monitored by the Community Foundation. Although there are risks associated with market fluctuations, the Board and management believes the investment policy is prudent for the long-term welfare of the Community Foundation and its beneficiaries.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Grants Payable – Grants and scholarships are charged to operations and recognized as liabilities when authorized by the Board, regardless of the year in which they will be paid. The Board authorizes grants based on prudent distribution rate calculation or income earned on investments, depending on each fund's governing language.

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 2 – Summary of Significant Accounting Policies (continued)

Income Taxes – The Community Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. As of December 31, 2016, the Community Foundation has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Fair Value – Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”), Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Community Foundation has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016.

Cash and cash equivalents: Valued at carrying value due to the initial maturities of the instruments being three months or less. (Level 1 Measurements)

Common stocks, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded. (Level 1 Measurements)

Mutual funds: Valued at the net asset value (“NAV”) of shares held by the Community Foundation at year end. (Level 1 Measurements)

Life insurance: Value based on the accrued statement of cash surrender value provided by the life insurance company. (Level 2 Measurement)

Royalty interests: Certain other investment assets are comprised of non-producing mineral interests. These holdings are valued at a nominal amount for tracking purposes. Producing royalty mineral interests are also tracked but a value is not recorded as they are not considered material to the total investments. (Level 3 Measurements)

Real estate: Value based on the appraised value obtained upon receipt of the property. (Level 3 Measurements)

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 2 – Summary of Significant Accounting Policies (continued)

Fiduciary Duty and Variance Power – The Community Foundation has a fiduciary duty to comply with the charitable purposes expressed by a donor but the Board of Directors has the power to vary the charitable purpose of a Fund if the Foundation determines that changes in conditions have made the donor's restrictions on the stated charitable purpose unnecessary, undesirable, incapable of fulfillment, or inconsistent with the needs of the community. The Community Foundation's powers in this regard cannot be exercised arbitrarily. When, and if, the Board of Directors acquires the authority to vary the charitable purposes of a Fund, it must apply the assets of the Fund to the "most nearly related charitable purpose as in the judgment of the Board of Directors that will effectively accomplish the original charitable intent of the donor."

Types of Funds – The Community Foundation receives contributions that are to be used exclusively for charitable purposes. The donor may have designated one or more specific charitable purposes for all future distributions from the contribution. These Funds are classified by charitable purpose as:

- Designated Funds (if the distributions are restricted by the donor to specific charities)
- Donor Advised Funds (if the distributions are made from donor advisement and subsequent Board approval)
- Field of Interest Funds (if distributions are restricted by the donor to a specified charitable purpose)
- Scholarship Funds (if distributions are restricted to scholarships)
- Discretionary or Unrestricted Funds (if the donor placed no restriction on distributions)

Note 3 – Endowments

The Board of Directors of the Community Foundation has interpreted the Texas Prudent Management of Institutional Funds Act (the Act), as implemented under ASC 958-205, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Community Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the Act. An endowed fund with a negative balance in temporarily restricted net assets will be reclassified and shall reduce unrestricted net assets. These deficiencies are the result of unfavorable market fluctuations. In accordance with the Act, the Community Foundation considers the following factors 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 organization and 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
6. Other resources of the organization
7. The investment policies of the Community Foundation

In contrast to endowed funds that can only make grants from income earned from the principle, non-endowed funds can be used in their entirety for grants. The Community Foundation classifies as temporarily restricted all non-endowed funds whose donor restricted the expenditures from the fund to either a specific charitable purpose, specified time, or a specifically identified charitable organization. Those funds that do not contain a purpose restriction are classified as unrestricted.

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

Note 3 – Endowments (continued)

The Community Foundation has adopted investment and spending policies, approved by the Board of Directors, 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 those endowment assets over the long-term that might otherwise be eroded by inflation. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes a targeted return objective through diversification of asset classes. The long-term return objective is to obtain a total rate of return that exceeds investment fees and inflation as measured by the Consumer Price Index and annual charitable expenditures. Actual returns in any given year may vary from this amount. To satisfy 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 Community Foundation has in place an Investment Committee that monitors the performance of the Foundation's investment managers.

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds for grant making and administration. The current target spending policy, subject to requests for variances, is to distribute an amount equal to 3.5% of a moving three-year average of the fair value of the endowment funds as determined at the end of each fiscal year for the following fiscal year. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

The Community Foundation's changes in endowment net assets for the year ended December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 130,821	\$ 2,274,607	\$ 2,405,428
Interest and dividends	-	88,965	-	88,965
Realized/unrealized gain(loss) on investments	-	268,968	-	268,968
Contributions	-	-	203,895	203,895
Amounts appropriated for expenditure	-	(268,825)	(20,693)	(289,518)
Changes in net assets	-	89,108	183,202	272,310
Endowment net assets, end of year	\$ -	\$ 219,929	\$ 2,457,809	\$ 2,677,738

The Community Foundation's composition of endowment net assets for the year ended December 31, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor designated endowment funds:				
Donor advised	\$ -	\$ 8,127	\$ 265,550	\$ 273,677
Designated	-	131,866	1,234,654	1,366,520
Field of interest	-	7,502	16,840	24,342
Scholarship	-	72,434	840,765	913,199
Unrestricted	-	-	100,000	100,000
Total endowment funds	\$ -	\$ 219,929	\$ 2,457,809	\$ 2,677,738

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

Note 3 – Endowments (continued)

The following table summarizes all of the Community Foundation's net assets, including non-endowed funds, as of December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds	\$ -	\$ 219,929	\$ 2,457,809	\$ 2,677,738
Non-endowment funds:				
Donor advised	6,931,901	21,243	-	6,953,144
Designated	-	864,760	-	864,760
Field of interest	-	325,458	-	325,458
Scholarship	-	650,585	-	650,585
Unrestricted	<u>2,999,833</u>	<u>-</u>	<u>-</u>	<u>2,999,833</u>
Total net assets	<u>\$ 9,931,734</u>	<u>\$ 2,081,975</u>	<u>\$ 2,457,809</u>	<u>\$ 14,471,518</u>

The Community Foundation's changes in endowment net assets for the year ended December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 244,440	\$ 1,967,177	\$ 2,211,617
Interest and dividends	-	85,777	-	85,777
Realized/unrealized gain(loss) on investments	-	(132,234)	-	(132,234)
Contributions	-	604,402	320,865	925,267
Amounts appropriated for expenditure	-	(671,564)	(13,435)	(684,999)
Changes in net assets	<u>-</u>	<u>(113,619)</u>	<u>307,430</u>	<u>193,811</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 130,821</u>	<u>\$ 2,274,607</u>	<u>\$ 2,405,428</u>

The Community Foundation's composition of endowment net assets for the year ended December 31, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor designated endowment funds:				
Donor advised	\$ -	\$ (17)	\$ 270,029	\$ 270,012
Designated	-	80,638	1,057,792	1,138,430
Field of interest	-	7,686	16,171	23,857
Scholarship	-	42,514	830,615	873,129
Unrestricted	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>
Total endowment funds	<u>\$ -</u>	<u>\$ 130,821</u>	<u>\$ 2,274,607</u>	<u>\$ 2,405,428</u>

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

Note 3 – Endowments (continued)

The following table summarizes all of the Community Foundation's net assets, including non-endowed funds, as of December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds	\$ -	\$ 130,821	\$ 2,274,607	\$ 2,405,428
Non-endowment funds:				
Donor advised	6,787,492	19,742	-	6,807,234
Designated	-	815,064	-	815,064
Field of interest	-	286,879	-	286,879
Scholarship	-	517,886	-	517,886
Unrestricted	<u>3,007,573</u>	<u>-</u>	<u>-</u>	<u>3,007,573</u>
Total net assets	<u>\$ 9,795,065</u>	<u>\$ 1,770,392</u>	<u>\$ 2,274,607</u>	<u>\$ 13,840,064</u>

Note 4 – Funds Held as Agency Endowments

FASB establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both to a beneficiary named by the donor. FASB specifically requires that if a Not-for-Profit Organization establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Community Foundation maintains variance power and legal ownership of agency liability funds and as such, continues to report the funds as assets of the Community Foundation. However, in accordance with FASB, a liability has been established for the full value of such funds. The Community Foundation refers to such funds as funds held as agency endowments.

As of December 31, 2016 and 2015, the Community Foundation was the owner of 38 and 31 agency endowment funds with a combined value of \$4,431,448 and \$3,297,043, respectively. The following table summarizes the combined activity in such funds for the year ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Agency endowment funds at the beginning of the year	\$ 3,297,043	\$ 2,289,813
Contributions	1,158,078	1,150,965
Investment income	77,330	69,701
Unrealized and realized gains(losses) - net	175,690	(79,679)
Grants	(221,375)	(84,062)
Administrative fees	(33,670)	(29,987)
Investment expenses	<u>(21,648)</u>	<u>(19,708)</u>
Agency endowment funds at the end of year	<u>\$ 4,431,448</u>	<u>\$ 3,297,043</u>

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
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Note 5 – Investments

Investments are reported in these financial statements at fair value. Any unrealized gains and losses are reported in the statements of activities. Following is an analysis of the major types of investments (excluding cash and cash equivalents) at December 31, 2016 and 2015.

	2016		2015	
	Cost	Market Value	Cost	Market Value
Certificates of deposit	\$ 100,347	\$ 101,413	\$ 371,814	\$ 124,859
Government obligations	117,861	119,453	189,315	193,191
Municipal bonds	2,697,169	2,721,226	2,240,543	2,272,524
Corporate obligations	1,611,639	1,570,866	1,598,929	1,579,105
Equity securities	8,545,472	9,865,213	7,491,558	8,673,432
Mutual funds	1,866,677	1,840,750	2,096,020	1,986,861
Alternative Investments	790,556	758,351	919,578	808,895
SAAF Agency Fund	10,000	16,507	10,000	15,596
	<u>15,739,721</u>	<u>16,993,779</u>	<u>14,917,757</u>	<u>15,654,463</u>
Royalty interests	14	15	14	15
Total investments	<u>\$ 15,739,735</u>	<u>\$ 16,993,794</u>	<u>\$ 14,917,771</u>	<u>\$ 15,654,478</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 181,487	\$ 88,964	\$ -	\$ 270,451
Realized gains	84,527	27,631	-	112,158
Unrealized gains	303,728	241,338	-	545,066
Total investment return	<u>\$ 569,742</u>	<u>\$ 357,933</u>	<u>\$ -</u>	<u>\$ 927,675</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 175,027	\$ 85,519	\$ -	\$ 260,546
Realized gains	206,414	106,685	-	313,099
Unrealized gains	(463,108)	(202,894)	-	(666,002)
Total investment return	<u>\$ (81,667)</u>	<u>\$ (10,690)</u>	<u>\$ -</u>	<u>\$ (92,357)</u>

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
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Note 6 – Fair Value of Financial Assets

The following table sets forth by level, within the fair value hierarchy, the Community Foundation's financial assets at fair value as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,484,774	\$ -	\$ -	\$ 2,484,774
Investments	16,457,999	-	-	16,457,999
Life insurance	-	31,071	-	31,071
Royalty interests	-	-	15	15
Total financial assets at fair value	<u>\$ 18,942,773</u>	<u>\$ 31,071</u>	<u>\$ 15</u>	<u>\$ 18,973,859</u>

The following table sets forth by level, within the fair value hierarchy, the Community Foundation's financial assets at fair value as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,574,625	\$ -	\$ -	\$ 1,574,625
Investments	15,654,463	-	-	15,654,463
Life insurance	-	30,368	-	30,368
Royalty interests	-	-	15	15
Total financial assets at fair value	<u>\$ 17,229,088</u>	<u>\$ 30,368</u>	<u>\$ 15</u>	<u>\$ 17,259,471</u>

Note 7 – Property and Equipment

The following is a summary of property and equipment as of December 31:

	2016	2015
Furniture and equipment	24,085	21,552
Less: Accumulated depreciation	(15,010)	(13,785)
Net property and equipment	<u>\$ 9,075</u>	<u>\$ 7,767</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$1,180 and \$12,202, respectively.

Note 8 – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2016	2015
Family and community programs	\$ 758,809	\$ 630,377
Education and youth programs	1,229,545	1,093,957
Health and rehabilitation programs	93,621	41,407
Nonprofit campus - land, buildings and improvements	-	4,651
	<u>\$ 2,081,975</u>	<u>\$ 1,770,392</u>

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

Note 8 – Temporarily Restricted Net Assets (continued)

Grant expense in the Statement of Activities includes grant expense related to fund closures of \$775,095 and \$691,496 for the years ended December 31, 2016 and 2015, respectively.

Note 9 – Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes at December 31:

	<u>2016</u>	<u>2015</u>
Family and community programs	\$ 1,906,894	\$1,833,992
Education and youth programs	550,915	440,615
	<u>\$ 2,457,809</u>	<u>\$2,274,607</u>

Note 10 – Grants Payable

Following is the listing of grants payable as of December 31, 2016:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Scholarships	\$ 15,675	\$ 46,450	\$ 24,500	\$ 12,250	\$ 98,875
	<u>\$ 15,675</u>	<u>\$ 46,450</u>	<u>\$ 24,500</u>	<u>\$ 12,250</u>	<u>\$ 98,875</u>

Note 11 – Nonprofit Campus

During 2006, contiguous properties were purchased on Main and Broadway Streets in Kerrville, Texas (Nonprofit Campus) with grant monies from a local foundation specifically designated for that purpose. Three buildings were leased to not-for-profit organizations resulting in \$- and \$14,000 of rental income for 2016 and 2015, respectively.

	<u>2016</u>	<u>2015</u>
Repairs and maintenance	\$ -	\$ 19,844
Property insurance	-	3,620
Janitorial and lawn care	-	600
Depreciation expense	-	-
Total Main Street property expenses	<u>\$ -</u>	<u>\$ 24,064</u>

During 2015 the Nonprofit campus was granted to another nonprofit organization. The Foundation no longer owns or operates this campus.

Note 12 – Employee Retirement

On January 15, 2002, the Board of Trustees approved the establishment of a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE). For each calendar year, the Foundation will contribute a matching contribution to each eligible employee's SIMPLE IRA equal to the employee's salary reduction contributions up to a maximum of 3 percent of the employee's annual compensation. The Foundation made contributions of \$2,527 and \$2,389 for 2016 and 2015, respectively.

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

Note 13 – Office Rent

Office space for the Foundation is provided at no cost to the Foundation. The statement of activities reflects a contribution of \$4,800 and corresponding rent expense of \$4,800, based on the estimated rental cost of the office.

Note 14 – Functional Expenses

Expenses reported in the Statement of Activities consist of the following for the year ended December 31, 2016:

	Program	Management and General	Fundraising	Total
Grants	\$ 2,517,672	\$ 240	\$ -	\$ 2,517,912
Scholarships	63,700	-	-	63,700
Personnel costs	96,926	86,156	32,309	215,390
Professional & special services	8,541	19,110	-	27,650
Office occupancy & expense	36,778	53,005	2,884	73,259
Gala and special events	6,892	-	29,293	36,185
Investment management	-	76,225	-	76,225
	<u>\$ 2,730,509</u>	<u>\$ 234,736</u>	<u>\$ 64,486</u>	<u>\$ 3,010,322</u>

Expenses reported in the Statement of Activities consist of the following for the year ended December 31, 2015:

	Program	Management and General	Fundraising	Total
Grants	\$ 1,242,587	\$ 448	\$ -	\$ 1,243,035
Scholarships	85,025	-	-	85,025
Personnel costs	91,332	81,182	30,443	202,957
Professional & special services	40,896	28,247	-	69,143
Office occupancy & expense	14,256	55,535	2,272	72,063
Gala and special events	6,905	-	15,715	22,620
Investment management	-	76,791	-	76,791
Nonprofit campus expenses	24,065	-	-	24,065
	<u>\$ 1,505,066</u>	<u>\$ 242,203</u>	<u>\$ 48,430</u>	<u>\$ 1,795,699</u>

Note 15 – Subsequent Events

The Organization has evaluated its financial statements for subsequent events through May 15, 2017, the date the financial statements were available to be issued. The Organization is not aware of any such events which would require recognition or disclosure in the financial statements.