

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

FINANCIAL STATEMENTS

December 31, 2018

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Massey ♦ Itschner
& Company, P.C.
CERTIFIED PUBLIC
ACCOUNTANTS

Independent Auditor's Report

May 20, 2019

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

We have audited the accompanying statement of financial position of The Community Foundation of the Texas Hill Country, Inc. (a non-profit Community Foundation) as of December 31, 2018, and the related statement of activities and cash flows for the year 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, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2018, The Community Foundation of the Texas Hill Country, Inc. adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.


CERTIFIED PUBLIC ACCOUNTANTS

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018**

ASSETS

| | |
|--|----------------------|
| Cash and cash equivalents | \$ 1,259,596 |
| Accrued interest receivable | 29,663 |
| Pledges receivable | 16,000 |
| Investments | 18,749,198 |
| Beneficial interest in perpetual trust | 3,236,322 |
| Life insurance - cash surrender value | 31,032 |
| Property and equipment, net | <u>20,626</u> |
| | <u>\$ 23,342,437</u> |

LIABILITIES AND NET ASSETS

| | |
|--|----------------------|
| Liabilities | |
| Grants payable | \$ 99,206 |
| Accounts payable | 2,862 |
| Funds held for agencies | <u>5,335,377</u> |
| | 5,437,445 |
| Net assets: | |
| Without donor restriction | |
| Undesignated | 7,202,781 |
| Board designated endowment funds | <u>1,374,893</u> |
| Total net assets without donor restriction | 8,577,674 |
| Total net assets with donor restriction | <u>9,327,318</u> |
| | <u>17,904,992</u> |
| | <u>\$ 23,342,437</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, 2018**

| | Without donor restriction | With donor restriction | Total |
|--|------------------------------|---------------------------|---------------|
| Revenues, gains and other support | | | |
| Contributions | \$ 551,990 | \$ 1,438,556 | \$ 1,990,546 |
| Investment income, net | (228,599) | (362,764) | (591,363) |
| Change in value of perpetual trusts | - | - | - |
| Oil royalties | 14,355 | 886 | 15,241 |
| Special events | 66,768 | - | 66,768 |
| Administrative fees - agency funds | 50,174 | - | 50,174 |
| | | | |
| Total revenues and gains | 454,688 | 1,076,678 | 1,531,366 |
| | | | |
| Net assets released from restrictions | 535,715 | (535,715) | - |
| | | | |
| Total revenues, gains and other support | 990,403 | 540,963 | 1,531,366 |
| | | | |
| Expenses | | | |
| Program expenses | | | |
| Grants | 1,309,013 | - | 1,309,013 |
| Scholarships | 165,400 | - | 165,400 |
| Other program expenses | 167,308 | - | 167,308 |
| Management and general | 221,842 | - | 221,842 |
| Fundraising | 100,932 | - | 100,932 |
| | 1,964,495 | - | 1,964,495 |
| | | | |
| Change in value of beneficial interest in perpetual trust | - | (300,274) | (300,274) |
| | | | |
| Change in net assets | (974,092) | 240,689 | (733,403) |
| | | | |
| Net assets at beginning of year | 9,551,766 | 9,086,629 | 18,638,395 |
| | | | |
| Net assets at end of year | \$ 8,577,674 | \$ 9,327,318 | \$ 17,904,992 |

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

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

| | <u>Program</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|--------------------|---------------------|
| Advertising | \$ - | \$ 14,232 | \$ - | \$ 14,232 |
| Bank service charges | - | 3,046 | - | 3,046 |
| Contracted services | 113 | 48 | - | 162 |
| Depreciation | - | 3,068 | - | 3,068 |
| Dues and subscriptions | - | 9,990 | - | 9,990 |
| Employee benefits | 17,317 | 15,393 | 5,772 | 38,483 |
| Fundraising events | - | - | 52,539 | 52,539 |
| Grants | 1,309,013 | - | - | 1,309,013 |
| Insurance | - | 3,340 | - | 3,340 |
| Meals, entertainment and gifts | - | 2,801 | - | 2,801 |
| Miscellaneous | - | 12,291 | - | 12,291 |
| Office supplies | 2,341 | 1,171 | 1,171 | 4,683 |
| Postage | 1,165 | 583 | 583 | 2,331 |
| Printing, brochures and newsletters | 3,307 | 5,512 | 2,205 | 11,024 |
| Professional development and board training | - | 4,643 | - | 4,643 |
| Professional fees | - | 15,500 | - | 15,500 |
| Rent | - | 20,395 | - | 20,395 |
| Repairs and maintenance | 19,671 | - | - | 19,671 |
| Scholarships | 165,400 | - | - | 165,400 |
| Software | 2,113 | 2,113 | - | 4,225 |
| Special projects | 677 | - | - | 677 |
| Telephone | 2,134 | 2,134 | - | 4,268 |
| Travel | 2,484 | 2,484 | - | 4,968 |
| Wages and payroll taxes | 115,986 | 103,098 | 38,662 | 257,746 |
| Total Expenses | <u>\$ 1,641,721</u> | <u>\$ 221,842</u> | <u>\$ 100,932</u> | <u>\$ 1,964,496</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 YEAR ENDED DECEMBER 31, 2018**

| | |
|--|---------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ (733,403) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: | |
| Depreciation | 3,068 |
| Noncash contribution of assets | (175,667) |
| Unrealized losses on investments | 1,373,804 |
| Change in value of beneficial interest in trust | 300,274 |
| Change in assets and liabilities: | |
| Pledges receivable | (16,000) |
| Accrued interest receivable | 127 |
| Cash surrender value adjustment | 490 |
| Accounts payable and accrued expenses | 1,323 |
| Grants payable | 22,381 |
| Net additions to funds held for agencies | (656,361) |
| Net cash provided (used) by operating activities | <u>120,036</u> |
| Cash flows from investing activities: | |
| Purchases of property and equipment | (15,976) |
| Purchases of securities | (5,449,142) |
| Proceeds from sale of securities | 5,254,895 |
| Net cash provided (used) by investing activities | <u>(210,225)</u> |
| Net increase (decrease) in cash and cash equivalents | (90,189) |
| Cash and cash equivalents at beginning of year | <u>1,349,785</u> |
| Cash and cash equivalents at end of year | <u>\$ 1,259,596</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, 2018

Note 1 – Nature of Activities

The Community Foundation of the Texas Hill Country (the Community Foundation) was organized in 1982 to receive and maintain funds, to make grants to charitable efforts, and award scholarships to students in the Texas Hill Country, an area that includes 10 counties: Bandera, Blanco, Edwards, Gillespie, Kendall, Kerr, Kimble, Mason, Real, and Uvalde.

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.

Recent Accounting Pronouncement – During 2018 the Community Foundation adopted Accounting Standards Update (ASU) 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit's liquidity, financial performance and cash flows. The main provisions of ASU 2016-14 include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The ASU also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and expenses by both their natural and functional classification. Because the definition of donor-imposed restriction is essentially unchanged, the effect of the change is that temporarily restricted net assets and permanently restricted net assets are combined in the statement of financial position and the statement of activities to become a single class of net assets with donor restrictions. Unrestricted net assets are now referred to as net assets without donor restriction.

Basis of Presentation – The Community Foundation reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Net assets without donor restrictions are defined as assets that are free of donor-imposed restrictions, and include all investment income and appreciation not subject to donor-imposed restrictions, as discussed below. Net assets with donor restrictions are net assets whose use has been limited by donor-imposed time or purpose restrictions or those that are defined as net assets required by the donor restrictions or law to be maintained by the Community Foundation in perpetuity. The Community Foundation reflects restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Liquidity – Assets are presented in the accompanying statement of financial position according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

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, 2018

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 support with donor restriction or without donor restriction 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 with donor restriction support that increases that net asset class.

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 securities, mutual funds, corporate bonds, and government bonds are carried at fair value determined by quoted prices on the last business day of the year. Investments in alternative investment funds that are not readily tradable are carried at an estimated fair value at the end of the period, as determined by management based upon consolidated financial statements, third-party pricing services, and other financial information reported by the administrator of the underlying investment funds.

Donated investments are recorded at fair value at the date of receipt. Investment income may be either with donor restrictions or without donor restrictions resources when earned, determined according to donor-imposed restrictions. The Community Foundation follows a total return concept with regard to investments.

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.

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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.

Functional Allocation of Expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, pass-through funds and grants have been allocated directly to program services and the remaining costs have been allocated both directly and indirectly to either program or supporting services. The expenses that are allocated include compensation and benefits, which are allocated on the basis of estimates of time and effort, as well as depreciation and occupancy expenses, which are allocated on an estimated square footage basis.

Income Taxes – The Community Foundation is a not-for-profit Community Foundation 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, 2018, the Community Foundation has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

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."

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

Note 2 – Summary of Significant Accounting Policies (continued)

Beneficial Interest in Perpetual Trust – The Community Foundation is the beneficiary of a perpetual trust held by a third party. Under the terms of the trust the Community Foundation has the irrevocable right to receive a percentage of the income generated by the trust in perpetuity. The beneficial interest is recorded at fair value, which is based on the fair market value of the underlying assets held in the trust as provided by the trustee. Management evaluates the fair values provided by the trustees and when deemed appropriate, makes adjustments to the trustee's fair values (see Note 14).

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 – Funds Held for Agencies

FASB establishes standards for transactions in which a community foundation accepts a contribution from a nonprofit organization and agrees to transfer those assets, the return on investment of those assets, or both back to that nonprofit organization. FASB specifically requires that if a nonprofit 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 for agencies.

As of December 31, 2018, the Community Foundation was the owner of 43 funds held for agencies with a combined value of \$5,335,377. The following table summarizes the combined activity in such funds for the year ended December 31, 2018:

| | |
|---|---------------------|
| Funds held for agencies - beginning of year | \$ 5,991,738 |
| Contributions | 543,950 |
| Investment income | 131,674 |
| Unrealized and realized gains(losses) - net | (356,112) |
| Grants | (895,421) |
| Administrative fees | (50,174) |
| Investment expenses | (30,279) |
| Funds held for agencies - end of year | <u>\$ 5,335,377</u> |

Note 4 – Advertising

The Community Foundation expenses the costs of advertising as incurred. Advertising expense for the year ended December 31, 2018 was \$14,232.

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Note 5 – Property and Equipment

The following is a summary of property and equipment as of December 31, 2018:

| | |
|--------------------------------|------------------|
| Furniture and equipment | \$ 40,061 |
| Less: Accumulated depreciation | (19,435) |
| Net property and equipment | <u>\$ 20,626</u> |

Depreciation expense for the year ended December 31, 2018 was \$3,068.

Note 6 – Board Designated Endowment Funds

The Foundation classifies as board-designated endowment net assets (a) the original value of gifts designated by the Board as endowment, (b) the original value of subsequent gifts to the board-designated endowment, and (c) accumulations of investment earnings and/or losses to the board-designated endowment in accordance with Board designations. The Foundation considers all earnings and/or losses on board-designated endowment funds to accumulate in the board-designated endowment fund.

The Foundation has a policy to determine the endowment distribution each year. In establishing this policy, the Foundation considers the long-term expected return on its endowment net of investing fees, inflation, and administrative fees. The Foundation's goal is to provide sustainable funding to nonprofits in perpetuity.

Board-designated endowment funds were \$1,374,894 as of December 31, 2018, all of which was designated for grant making.

Board-designated endowment net asset composition as of December 31, 2018 and during the year then ended is as follows:

| | |
|---|---------------------|
| Board-designated net assets – Beginning of year | \$ 1,590,041 |
| Investment return: | |
| Investment income | 75,795 |
| Investment expenses | (22,936) |
| Net appreciation (depreciation) | <u>(140,431)</u> |
| Total investment return (loss) | (87,572) |
| Contributions | 2,100 |
| Amounts appropriated for expenditures | <u>(129,676)</u> |
| Board-designated net assets – End of year | <u>\$ 1,374,893</u> |

Note 7 – Grants Payable

Following is the listing of grants payable as of December 31, 2018:

| | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>Total</u> |
|--------------|------------------|------------------|------------------|------------------|
| Scholarships | \$ 49,256 | \$ 32,350 | \$ 17,600 | \$ 99,206 |
| | <u>\$ 49,256</u> | <u>\$ 32,350</u> | <u>\$ 17,600</u> | <u>\$ 99,206</u> |

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

Note 8 – 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 \$5,009 for 2018.

Note 9 – Liquidity and Availability of Financial Assets

The Foundation's financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, assets held for others, endowments and board designated endowments. Because the Board has variance power, the Board designated endowments may be drawn upon at the discretion of the governing board, but this is not the intention of the Board. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

The Foundation's financial assets available for general use expenditures within one year as of June 30, 2018 consist of the following:

Financial assets, as of December 31, 2018:

| | |
|--|-------------------|
| Cash and cash equivalents | \$ 1,259,596 |
| Other assets and receivables | 76,695 |
| Investments | 18,749,198 |
| Beneficial interest in perpetual trust | <u>3,236,322</u> |
| Total financial assets | <u>23,321,811</u> |

Less those unavailable for general expenditure within one year:

| | |
|--|-------------------|
| Investments and other financial assets held for others | 5,335,377 |
| Investments in board designated endowments | 1,374,893 |
| Donor restricted to maintain as an endowment | 3,101,858 |
| Donor restricted to specific purpose | 2,452,920 |
| Beneficial interests | <u>3,236,322</u> |
| Total assets unavailable | <u>15,501,370</u> |

| | |
|--|---------------------|
| Financial assets available within one year to meet Foundation cash needs for general expenditures | <u>\$ 7,820,441</u> |
|--|---------------------|

Note 10 – Split-Interest Agreements

The Community Foundation is the beneficiary of a perpetual trust in which it is not the trustee. The Community Foundation's interests in the trust is 50 percent. The Community Foundation relies on the fair market values provided by the trustee.

Note 11 – Leasing Arrangements

The Community Foundation presently leases its office space under the terms of a 24 month lease which commenced on March 1, 2018, terminating March 31, 2020. Lease payments are \$1,500 per month and the total lease expense incurred for the year ended December 31, 2018 was \$18,000.

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

Note 12 – Endowments

The Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) was enacted by the State of Texas effective September 1, 2007 (TUPMIFA). The Board of the Foundation interpreted TUPMIFA to require the Foundation to exercise prudence in determining the spending policy for donor-restricted endowment funds while honoring the perpetual nature expressed by the donor, unless otherwise stipulated.

In accordance with United States Treasury Regulations, the Foundation, as a community foundation, possesses the unilateral right of variance power to remove donor-imposed restrictions upon a gift in response to changed circumstances. This power is exercisable only in narrowly defined circumstances. When this power is specifically incorporated within gift instruments, by reference to variance power or the Foundation's bylaws or Plan, the Foundation views its variance power as an explicit expression of donor intent (collectively referenced throughout these financial statements as explicit variance power).

In accordance with TUPMIFA, 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 purpose 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, (6) other resources of the Community Foundation, and (7) the investment policies of the Community Foundation.

The Board has concluded that gifts to the Foundation may be subject to one or more of three types of donor-imposed restrictions: (1) contributions received with restrictions as to the purpose(s) for which the gift may be used (purpose restriction), (2) contributions received with a requirement that some or all of the gift be retained for a specified period of time or until a specified event occurs (time restriction) and (3) contributions received with a requirement that the principal of the gift be retained permanently (endowment restriction). The Board has determined that the Foundation's variance power applies to all three types of restrictions and that only those funds subject to time restrictions or endowment restrictions constitute endowment funds under TUPMIFA.

The Community Foundation would consider an endowment fund to be underwater if the fair value of the fund is less than 80% of the sum of (1) the original value of initial and subsequent gifts donated to the fund and (2) any accumulations to the fund that are required to be maintained in perpetuity in accordance with applicable donor gift instrument. The Community Foundation has interpreted TUPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. The funds are not currently underwater.

The Community Foundation's changes in endowment net assets for the year ended December 31, 2018 are as follows:

| | Without Donor Restriction | With Donor Restriction | Total |
|--|------------------------------|---------------------------|--------------|
| Endowment net assets, beginning of year | \$ 809,910 | \$ 3,802,148 | \$ 4,612,058 |
| Interest and dividends | 4,319 | 67,959 | 72,278 |
| Realized/unrealized gain(loss) on investments | (60,394) | (198,453) | (258,847) |
| Contributions | - | 283,440 | 283,440 |
| Amounts appropriated for expenditure | (52,198) | (317,018) | (369,216) |
| Changes in net assets | (108,273) | (164,072) | (272,345) |
| Endowment net assets, end of year | \$ 701,637 | \$ 3,638,076 | \$ 4,339,713 |

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

Note 12 – Endowments (continued)

The Community Foundation's composition of endowment net assets for the year ended December 31, 2018 is as follows:

| | Without Donor Restriction | With Donor Restriction | Total |
|-----------------------------------|------------------------------|---------------------------|---------------------|
| Donor designated endowment funds: | | | |
| Donor advised | \$ 701,637 | \$ 281,757 | \$ 983,394 |
| Designated | - | 1,524,892 | 1,524,892 |
| Field of interest | - | 308,369 | 308,369 |
| Scholarship | - | 1,523,058 | 1,523,058 |
| | <u>701,637</u> | <u>3,638,076</u> | <u>4,339,713</u> |
| Total endowment funds | <u>\$ 701,637</u> | <u>\$ 3,638,076</u> | <u>\$ 4,339,713</u> |

The following table summarizes all of the Community Foundation's net assets, including non-endowed funds, as of December 31, 2018:

| | Without Donor Restriction | With Donor Restriction | Total |
|--|------------------------------|---------------------------|----------------------|
| Endowment funds | \$ 701,637 | \$ 3,638,076 | \$ 4,339,713 |
| Non-endowment funds: | | | |
| Donor advised | 2,969,866 | - | 2,969,866 |
| Designated | 1,868,263 | 67,243 | 1,935,506 |
| Field of interest | - | 1,547,351 | 1,547,351 |
| Scholarship | - | 838,326 | 838,326 |
| Unrestricted | 1,663,015 | - | 1,663,015 |
| Non-endowment funds | <u>6,501,144</u> | <u>2,452,920</u> | <u>8,954,064</u> |
| Board designated endowment funds | 1,374,893 | - | 1,374,893 |
| Beneficial interest in perpetual trust | - | 3,236,322 | 3,236,322 |
| Total net assets | <u>\$ 8,577,674</u> | <u>\$ 9,327,318</u> | <u>\$ 17,904,992</u> |

Note 13 – Investments

Investments are reported in these financial statements at fair value. Any unrealized gains and losses are reported in the statements of activities. The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2018:

| | Without Donor Restriction | With Donor Restriction | Total |
|--|------------------------------|---------------------------|---------------------|
| Interest and dividends | \$ 155,213 | \$ 186,065 | \$ 341,278 |
| Realized gains | 157,902 | 198,787 | 356,689 |
| Unrealized losses | (626,188) | (747,616) | (1,373,804) |
| Investment fees | (87,387) | - | (87,387) |
| Income from beneficial interest in perpetual trust | 171,861 | - | 171,861 |
| Total investment return | <u>\$ (228,599)</u> | <u>\$ (362,764)</u> | <u>\$ (591,363)</u> |

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
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Note 13 – Investments (continued)

Following is an analysis of the major types of investments (excluding cash and cash equivalents) at December 31, 2018.

| | <u>Cost</u> | <u>Market Value</u> |
|-------------------------|----------------------|----------------------|
| Certificates of deposit | \$ 491,412 | \$ 523,680 |
| Government obligations | 482,562 | 484,028 |
| Municipal bonds | 2,469,302 | 2,444,133 |
| Corporate obligations | 2,522,279 | 2,481,551 |
| Equity securities | 9,394,451 | 10,360,683 |
| Mutual funds | 1,673,255 | 1,599,411 |
| Alternative investments | 880,104 | 838,712 |
| SAAF Agency Fund | 10,000 | 16,986 |
| | <u>17,923,365</u> | <u>18,749,184</u> |
| Royalty interests | 13 | 14 |
| Total investments | <u>\$ 17,923,378</u> | <u>\$ 18,749,198</u> |

Note 14 – Fair Value of Financial Assets

The Community Foundation's Investment Committee, appointed by the Board of Directors, is responsible for the overall management of the Foundation's investments in cash equivalent funds and securities (excluding investments in cash equivalent funds and securities held in trusts), including the hiring and termination of investment managers. The Community Foundation's investment managers are responsible for sourcing, evaluating and selecting investments and for the day-to-day operations involving due diligence and other testing procedures in regards to reviewing the reasonableness of fair value for all investments. This includes evaluating the accuracy and adequacy of information provided by custodians and brokers.

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, 2018.

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)

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

Note 15 – Fair Value of Financial Assets (continued)

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

Beneficial interest in perpetual trust: Fair value is based on the fair market value of the underlying trust assets as determined by the third-party trustee. Due to the significant unobservable inputs required to estimate the fair value of underlying assets, the Foundation's beneficial interest is classified as Level 3 in the hierarchy.

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, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|--|----------------------|------------------|---------------------|----------------------|
| Cash and cash equivalents | \$ 1,259,596 | \$ - | \$ - | \$ 1,259,596 |
| Investments | 18,749,184 | - | - | 18,749,184 |
| Life insurance | - | 31,032 | - | 31,032 |
| Beneficial interest in perpetual trust | - | - | 3,236,322 | 3,236,322 |
| Royalty interests | - | - | 14 | 14 |
| Total financial assets at fair value | <u>\$ 20,008,780</u> | <u>\$ 31,032</u> | <u>\$ 3,236,336</u> | <u>\$ 23,276,148</u> |

Level 3 Beneficial interest in perpetual trust:

| | |
|--|---------------------|
| Balance at December 31, 2017 | \$ 3,536,596 |
| Change in fair value of beneficial interest in perpetual trust | <u>(300,274)</u> |
| Balance at December 31, 2018 | <u>\$ 3,236,322</u> |

Note 16 – Subsequent Events

The Community Foundation has evaluated its financial statements for subsequent events through May 20, 2019, the date the financial statements were available to be issued. The Community Foundation is not aware of any such events which would require recognition or disclosure in the financial statements.