

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

FINANCIAL STATEMENTS

December 31, 2017 and 2016

CONTENTS

	<u>Pages</u>
Independent Auditor's Report	3
Statements of Financial Position	4
Statements of Activities	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 18

Massey • Itschner
& Company, P.C.

CERTIFIED PUBLIC
ACCOUNTANTS

Independent Auditor's Report

June 12, 2018

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, 2017 and 2016, 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, 2017 and 2016, 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,	
	2017	2016
Cash and cash equivalents	\$ 1,349,783	\$ 1,948,994
Accrued interest receivable	29,790	23,982
Investments	19,753,087	16,993,794
Beneficial interest in perpetual trust	3,536,596	-
Life insurance - cash surrender value	31,522	31,071
Property and equipment, net	7,719	9,075
	<u>\$ 24,708,497</u>	<u>\$ 19,006,916</u>

LIABILITIES AND NET ASSETS

Liabilities		
Grants payable	\$ 76,825	\$ 98,875
Accounts payable	1,539	5,076
Funds held for the benefit of other organizations	5,991,738	4,431,448
	<u>6,070,102</u>	<u>4,535,399</u>
Net assets:		
Unrestricted	9,551,766	9,931,733
Temporarily restricted	2,721,152	2,081,975
Permanently restricted	6,365,477	2,457,809
	<u>18,638,395</u>	<u>14,471,517</u>
	<u>\$ 24,708,497</u>	<u>\$ 19,006,916</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, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support				
Contributions	\$ 605,723	\$ 517,287	\$ 3,939,317	\$ 5,062,327
Investment income, net	989,300	731,810	-	1,721,110
Oil royalties	15,570	394	-	15,964
Special events	15,371	-	-	15,371
Management fees charged to agency funds	44,936	-	-	44,936
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues and gains	1,670,900	1,249,491	3,939,317	6,859,708
Net assets released from restrictions	641,963	(610,314)	(31,649)	-
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Total revenues, gains and other support	2,312,863	639,177	3,907,668	6,859,708
	<hr/>	<hr/>	<hr/>	<hr/>
Expenses				
Program expenses				
Grants	2,089,149	-	-	2,089,149
Scholarships	106,330	-	-	106,330
Other program expenses	167,366	-	-	167,366
Management and general	270,563	-	-	270,563
Fundraising	59,422	-	-	59,422
	<hr/>	<hr/>	<hr/>	<hr/>
Change in net assets	(379,967)	639,177	3,907,668	4,166,878
Net assets at beginning of year	9,931,733	2,081,975	2,457,809	14,471,517
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets at end of year	<u>\$ 9,551,766</u>	<u>\$ 2,721,152</u>	<u>\$ 6,365,477</u>	<u>\$ 18,638,395</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
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues and gains	2,810,008	647,281	203,895	3,661,184
Net assets released from restrictions	356,391	(335,698)	(20,693)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues, gains and other support	3,166,399	311,583	183,202	3,661,184
Expenses				
Program expenses				
Grants	2,517,672	-	-	2,517,672
Scholarships	63,700	-	-	63,700
Other program expenses	149,137	-	-	149,137
Management and general	234,736	-	-	234,736
Fundraising	64,486	-	-	64,486
	<hr/>	<hr/>	<hr/>	<hr/>
	3,029,731	-	-	3,029,731
Change in net assets	136,668	311,583	183,202	631,453
Net assets at beginning of year	9,795,065	1,770,392	2,274,607	13,840,064
	<hr/>	<hr/>	<hr/>	<hr/>
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.

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,166,878	\$ 631,453
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	1,357	1,180
Noncash grant of fixed assets	-	
Noncash contribution of assets	(217,364)	(378,870)
Unrealized and realized (gains) on investments	(1,428,726)	(657,224)
Change in assets and liabilities:		
Promises to give	-	-
Prepaid expenses	-	-
Accrued interest receivable	(5,808)	4,385
Cash surrender value adjustment	(451)	(703)
Accounts payable and accrued expenses	(3,537)	2,428
Grants payable	(22,050)	(56,975)
Transfer of beneficial interest in perpetual trust	(3,536,596)	-
Net additions to funds held for the benefit of other organizations	<u>1,560,290</u>	<u>1,134,405</u>
Net cash provided (used) by operating activities	<u>513,993</u>	<u>680,079</u>
Cash flows from investing activities:		
Purchases of securities	(4,800,450)	(4,971,002)
Proceeds from sale of securities	<u>3,687,247</u>	<u>4,665,291</u>
Net cash provided (used) by investing activities	<u>(1,113,204)</u>	<u>(305,711)</u>
Net increase (decrease) in cash and cash equivalents	(599,210)	374,368
Cash and cash equivalents at beginning of year	<u>1,948,993</u>	<u>1,574,625</u>
Cash and cash equivalents at end of year	<u>\$ 1,349,783</u>	<u>\$ 1,948,993</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, 2017 AND 2016

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.

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.

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.

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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:

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Note 2 – Summary of Significant Accounting Policies (continued)

- 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.

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, 2017, 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."

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)

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 6).

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 3 – Funds Held for the Benefit of Other Organizations

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, 2017 and 2016, the Community Foundation was the owner of 38 and 31 funds held for the benefit of other organizations with a combined value of \$5,991,738 and \$4,431,448, respectively. The following table summarizes the combined activity in such funds for the year ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Funds held for the benefit of other organizations at the beginning of the year	\$ 4,431,448	\$ 3,297,043
Contributions	1,227,482	1,158,078
Investment income	106,312	77,330
Unrealized and realized gains(losses) - net	480,218	175,690
Grants	(180,290)	(221,375)
Administrative fees	(44,936)	(33,670)
Investment expenses	(28,497)	(21,648)
Funds held for the benefit of other organizations at the end of the year	<u>\$ 5,991,738</u>	<u>\$ 4,431,448</u>

Note 4 – Property and Equipment

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

	<u>2017</u>	<u>2016</u>
Furniture and equipment	24,085	24,085
Less: Accumulated depreciation	(16,366)	(15,010)
Net property and equipment	<u>\$ 7,719</u>	<u>\$ 9,075</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$1,357 and \$1,180, respectively.

Note 5 – 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.

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Note 6 – 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 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 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 OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 6 – Endowments (continued)

The Community Foundation's changes in endowment net assets for the year ended December 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 573,559	\$ 219,929	\$ 2,457,809	\$ 3,251,297
Interest and dividends	4,094	60,958		65,052
Realized/unrealized gain(loss) on investments	112,060	286,832	-	398,892
Contributions	65	-	402,721	402,786
Amounts appropriated for expenditure	<u>(17,500)</u>	<u>(238,112)</u>	<u>(31,649)</u>	<u>(287,261)</u>
Changes in net assets	<u>98,719</u>	<u>109,678</u>	<u>371,072</u>	<u>579,469</u>
Endowment net assets, end of year	<u>\$ 672,278</u>	<u>\$ 329,607</u>	<u>\$ 2,828,881</u>	<u>\$ 3,830,766</u>

The Community Foundation's composition of endowment net assets for the year ended December 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor designated endowment funds:				
Donor advised	\$ 672,278	\$ 8,769	\$ 291,127	\$ 972,173
Designated	-	175,299	1,543,555	1,718,853
Field of interest	-	9,477	24,466	33,942
Scholarship	-	136,064	869,734	1,005,798
Unrestricted	-	-	100,000	100,000
Total endowment funds	<u>\$ 672,278</u>	<u>\$ 329,607</u>	<u>\$ 2,828,881</u>	<u>\$ 3,830,766</u>

The following table summarizes all of the Community Foundation's net assets, including non-endowed funds, as of December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds	\$ 672,278	\$ 329,607	\$ 2,828,881	\$ 3,830,766
Non-endowment funds:				
Donor advised	3,596,341	24,537	-	3,620,878
Designated	2,113,818	1,031,888	-	3,145,706
Field of interest	-	456,294	-	456,294
Scholarship	-	878,826	-	878,826
Unrestricted	<u>3,169,329</u>	-	-	<u>3,169,329</u>
Non-endowment funds	8,879,488	2,391,545	-	11,271,033
Beneficial interest in perpetual trust	-	-	3,536,596	3,536,596
Total net assets	<u>\$ 9,551,766</u>	<u>\$ 2,721,152</u>	<u>\$ 6,365,477</u>	<u>\$ 18,638,395</u>

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 6 – Endowments (continued)

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	\$ 565,579	\$ 75,242	\$ 2,274,607	\$ 2,915,428
Interest and dividends	-	88,965	-	88,965
Realized/unrealized gain(loss) on investments	-	324,547	-	324,547
Contributions	-	-	203,895	203,895
Amounts appropriated for expenditure	-	(268,825)	(20,693)	(289,518)
Changes in net assets	-	144,687	183,202	327,889
Endowment net assets, end of year	<u>\$ 565,579</u>	<u>\$ 219,929</u>	<u>\$ 2,457,809</u>	<u>\$ 3,243,317</u>

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	\$ 510,000	\$ 8,127	\$ 265,550	\$ 783,677
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	<u>\$ 510,000</u>	<u>\$ 219,929</u>	<u>\$ 2,457,809</u>	<u>\$ 3,187,738</u>

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	\$ 510,000	\$ 219,929	\$ 2,457,809	\$ 3,187,738
Non-endowment funds:				
Donor advised	6,421,901	21,242	-	6,443,143
Designated	-	864,760	-	864,760
Field of interest	-	325,458	-	325,458
Scholarship	-	650,585	-	650,585
Unrestricted	2,999,833	-	-	2,999,833
Non-endowment funds	9,931,734	2,081,974	2,457,809	14,471,517
Beneficial interest in perpetual trust				
Total net assets	<u>\$ 9,931,734</u>	<u>\$ 2,081,974</u>	<u>\$ 2,457,809</u>	<u>\$ 14,471,517</u>

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 7 – 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, 2017 and 2016.

	2017		2016	
	Cost	Market Value	Cost	Market Value
Certificates of deposit	\$ 872,312	\$ 880,836	\$ 100,347	\$ 101,413
Government obligations	67,498	68,581	117,861	119,453
Municipal bonds	2,578,631	2,563,533	2,697,169	2,721,226
Corporate obligations	2,512,508	2,510,427	1,611,639	1,570,866
Equity securities	8,521,236	11,174,988	8,545,472	9,865,213
Mutual funds	1,609,825	1,666,607	1,866,677	1,840,750
Alternative Investments	886,883	869,974	790,556	758,351
SAAF Agency Fund	10,000	18,127	10,000	16,507
	<u>17,058,893</u>	<u>19,753,073</u>	<u>15,739,721</u>	<u>16,993,779</u>
Royalty interests	13	14	14	15
Total investments	<u>\$ 17,058,906</u>	<u>\$ 19,753,087</u>	<u>\$ 15,739,735</u>	<u>\$ 16,993,794</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 164,080	\$ 128,305	\$ -	\$ 292,385
Realized gains	211,285	178,727	-	390,012
Unrealized gains	613,934	424,779	-	1,038,713
Total investment return	<u>\$ 989,299</u>	<u>\$ 731,811</u>	<u>\$ -</u>	<u>\$ 1,721,110</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>

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 \$2,990 and \$2,527 for 2017 and 2016, respectively.

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 9 – 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, 2017.

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)

Beneficial interest in perpetual trust: Fair value is based on the fair market value of the underlying trust assets as determine 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, 2017:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,349,783	\$ -	\$ -	\$ 1,349,783
Investments	19,753,073	-	-	19,753,073
Life insurance	-	31,522	-	31,522
Beneficial interest in perpetual trust	-	-	3,536,596	3,536,596
Royalty interests	-	-	14	14
Total financial assets at fair value	<u>\$ 21,102,856</u>	<u>\$ 31,522</u>	<u>\$ 3,536,610</u>	<u>\$ 24,670,988</u>

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 10 – Fair Value of Financial Assets (continued)

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,484,774	\$ -	\$ -	\$ 2,484,774
Investments	16,457,999	-	-	16,457,999
Life insurance	-	31,071	-	31,071
Beneficial interest in perpetual trust	-	-	-	-
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>

Note 11 – Grants Payable

Following is the listing of grants payable as of December 31, 2017:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
Scholarships	\$ 925	\$ 38,650	\$ 25,000	\$ 12,250	\$ 76,825
	<u>\$ 925</u>	<u>\$ 38,650</u>	<u>\$ 25,000</u>	<u>\$ 12,250</u>	<u>\$ 76,825</u>

Note 12 – Subsequent Events

The Organization has evaluated its financial statements for subsequent events through June 12, 2018, 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.

Note 13 – Functional Expenses

Expenses reported in the Statement of Activities consist of the following for the year ended December 31, 2017:

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants	\$ 2,089,149	\$ 250	\$ -	\$ 2,089,399
Scholarships	106,330	-	-	106,330
Personnel costs	126,550	112,489	42,183	281,223
Professional & Special Services	3,250	17,089	-	20,339
Office Occupancy & Expense	32,698	59,420	3,039	95,158
Gala and Special Events	4,867	-	14,200	19,067
Investments	-	81,315	-	81,315
	<u>\$ 2,362,845</u>	<u>\$ 270,563</u>	<u>\$ 59,422</u>	<u>\$ 2,692,830</u>

THE COMMUNITY FOUNDATION OF THE TEXAS HILL COUNTRY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 13 – Functional Expenses (continued)

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

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
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	-	27,651
Office Occupancy & Expense	36,778	53,006	2,884	92,668
Gala and Special Events	6,892	-	29,293	36,185
Investments	-	76,225	-	76,225
	<u>\$ 2,730,509</u>	<u>\$ 234,737</u>	<u>\$ 64,486</u>	<u>\$ 3,029,731</u>