

EAST TEXAS COMMUNITIES FOUNDATION, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
(with Independent Auditors' Report thereon)**

DECEMBER 31, 2015

East Texas Communities Foundation, Inc.
Table of Contents
December 31, 2015

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6-12

INDEPENDENT AUDITORS' REPORT

Board of Directors
East Texas Communities Foundation, Inc.
Tyler, Texas

We have audited the accompanying consolidated financial statements of East Texas Communities Foundation, Inc. and ETCF Support Foundation, Inc. (nonprofit organizations) (Foundation), which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2015 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Proth, Wilhelmi & Company, PLLC
PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
July 28, 2016

EAST TEXAS COMMUNITIES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015
(With Summarized Totals for 2014)

ASSETS	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 1,223,664	\$ 1,542,211
Investments	74,682,500	69,141,285
Property and equipment, net	25,792	28,025
Other assets	<u>16,303</u>	<u>23,863</u>
Total Assets	<u>\$ 75,948,259</u>	<u>\$ 70,735,384</u>
LIABILITIES		
Grants payable	\$ 60,050	\$ 43,000
Administrative expenses payable	430	4,226
Accrued compensated absences	10,280	7,425
Funds held as agency endowments	<u>8,606,905</u>	<u>8,542,357</u>
Total Liabilities	<u>8,677,665</u>	<u>8,597,008</u>
NET ASSETS		
Unrestricted	1,556,732	1,539,993
Temporarily restricted	<u>65,713,862</u>	<u>60,598,383</u>
Total Net Assets	<u>67,270,594</u>	<u>62,138,376</u>
Total Liabilities and Net Assets	<u>\$ 75,948,259</u>	<u>\$ 70,735,384</u>

EAST TEXAS COMMUNITIES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015
(With Summarized Totals for 2014)

	Unrestricted	Temporarily Restricted	Total Year Ended December 31,	
			2015	2014
Revenue and Other Support:				
Contributions received	\$ 49,780	\$ 10,980,694	\$ 11,030,474	\$ 6,307,261
Interest and dividends	39,607	1,809,979	1,849,586	1,565,307
Net realized gains on sales	108,833	3,450,384	3,559,217	1,626,848
Net unrealized losses	(199,609)	(4,883,677)	(5,083,286)	(175,419)
Income from mineral interests	-	36,426	36,426	56,948
Admin fees from				
agency endowments	80,535	-	80,535	79,671
Other income	757	1,776	2,533	2,225
Net assets released from restrictions	6,280,103	(6,280,103)	-	-
Total revenue and other support	6,360,006	5,115,479	11,475,485	9,462,841
Expenses:				
Supporting services				
Salaries and benefits	398,398	-	398,398	294,772
Professional fees	26,671	-	26,671	7,425
Disposition related expense	100,000	-	100,000	-
Insurance	5,068	-	5,068	3,922
Investment management fees	398,000	-	398,000	396,306
Other investment	39,359	-	39,359	30,315
Marketing/promotion	65,119	-	65,119	48,933
Other administration	84,030	-	84,030	79,042
Rent	20,641	-	20,641	22,245
Depreciation	7,716	-	7,716	9,542
	1,145,002	-	1,145,002	892,502
Program services				
Grants	5,198,265	-	5,198,265	4,795,146
Total expenses	6,343,267	-	6,343,267	5,687,648
Changes in net assets	16,739	5,115,479	5,132,218	3,775,193
Net assets, beginning of year	1,539,993	60,598,383	62,138,376	58,363,183
Net assets, end of year	\$ 1,556,732	\$ 65,713,862	\$ 67,270,594	\$ 62,138,376

EAST TEXAS COMMUNITIES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
(With Summarized Totals for 2014)

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2015</u>	<u>2014</u>
Change in net assets	\$ 5,132,218	\$ 3,775,193
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	7,716	9,542
Unrestricted and temporarily restricted investments:		
Net realized gains	(3,559,217)	(1,626,848)
Net unrealized losses	5,083,286	175,419
Agency endowments:		
Net realized (gains) or losses	(662,129)	295,304
Net unrealized gains (losses)	813,427	(118,621)
(Increase) decrease in other current assets	7,560	(6,565)
Increase in funds held as agency endowments	64,548	546,930
Increase in grants payable	17,050	8,000
Decrease in administrative expenses payable	(3,796)	(1,729)
Increase (decrease) in accrued compensated absences	2,855	(3,190)
Net cash provided by operating activities	<u>6,903,518</u>	<u>3,053,435</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments and reinvested earnings	(26,220,114)	(14,598,208)
Proceeds from sale of investments	19,003,532	12,343,725
Purchases of equipment	(5,483)	(17,643)
Net cash used in investing activities	<u>(7,222,065)</u>	<u>(2,272,126)</u>
Net increase (decrease) in cash	(318,547)	781,309
Beginning cash	<u>1,542,211</u>	<u>760,902</u>
Ending cash	<u>\$ 1,223,664</u>	<u>\$ 1,542,211</u>

See accompanying notes to financial statements.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

General

The Foundation is a nonprofit organization that encourages private giving for public purposes and accepts bequests and gifts to be administered according to the donor's designation. In the absence of specific donor designation, contributed funds are administered under the direction of the Board of Directors for the benefit of nonprofit organizations approved by the Internal Revenue Service in accordance with Internal Revenue Code section 501(c)(3). The Foundation's accounting records and reporting is on a calendar year.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect any significant receivables, payables, and other liabilities.

Financial Statement Presentation

The Accounting Standard Codification (ASC) is the Financial Accounting Standards Board's officially recognized source of authoritative U.S. generally accepted accounting principles applicable to all non-governmental entities. The Foundation has adopted the citation of ASC topics in its footnotes. Under ASC No. 958 "Not-for-Profit Entities", the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows.

ASC No. 958 and its subsections establish 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 another entity that is specified by the donor. ASC 958-605-25 specifically requires that if a Not-for-Profit Organization (NPO) 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 Foundation refers to such funds as agency endowments.

The Foundation maintains variance power and legal ownership of agency endowment funds and as such continues to report the funds as assets of the Foundation. However, in accordance with ASC 958-605-25, a liability has been established for the fair value of the funds.

Contributions

In accordance with ASC 958-605 "Not-for-Profit Entities, Revenue Recognition", contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Property and Equipment

All significant acquisitions of property and equipment and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Federal Income Tax

The 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. The Foundation paid no Federal income taxes or interest during the year. The Foundation believes it has filed all required tax reports and has no uncertain tax positions. The years 2013 to 2015 remain open for examination by taxing authorities.

Donated Assets & Services

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Measure of Operations

The Foundation includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities including realized and unrealized gains and losses on investments.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities, and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers only unrestricted demand deposits and money market accounts used in operations as an equivalent to demand deposits to be cash equivalents.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Money market investment funds held under the custody of fund managers, other than those used in operations as an equivalent to demand deposits, are considered short-term investments. Investments in common and preferred stocks, bonds, U.S. Treasury bills and government agencies, and mutual funds are carried at quoted fair market value. Investments in mineral interests are carried at fair market value as determined by valuation conducted by the outside brokerage having custody over those interests.

Concentration of Credit Risk

The Foundation places its cash, cash equivalents, short-term fund and marketable securities in high credit quality financial institutions. These accounts including money market funds which are not covered by FDIC insurance. The Foundation has not experienced any losses on such accounts.

Advertising

The policy of the Foundation is to expense all advertising costs as incurred.

Summarized Financial Information

The financial statements include certain summarized information from the prior year in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's audited financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Reporting Entity

The consolidated financial statements include the East Texas Communities Foundation, Inc. and its affiliated organization, ETCF Support Foundation. ETCF Support Foundation was formed for the benefit of the East Texas Communities Foundation, Inc.; the East Texas Communities Foundation, Inc. retains an economic interest in ETCF Support Foundation, retains the ultimate power and discretion over all distributions, and has the ability to appoint the majority of the voting board members of its board of directors. All significant inter-organization transactions were eliminated.

Subsequent Events

Management has evaluated subsequent events through July 28, 2016, the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 2 – TEMPORARILY RESTRICTED FUNDS

The Foundation has no permanently restricted funds. Temporarily restricted funds are donations received which are to be distributed to the particular area of community life or institution as the board of directors so designates, based on recommendations from the donors. The restricted funds at December 31, 2015 consist of donations received and the income earned from investing those donations less distributions.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at December 31, 2015, with comparative totals for December 31, 2014:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 99,272	\$ 93,789
Leasehold improvements	13,398	13,398
Total	<u>112,670</u>	<u>107,187</u>
Less: Accumulated depreciation	<u>86,878</u>	<u>79,162</u>
	<u>\$ 25,792</u>	<u>\$ 28,025</u>

NOTE 4 – INVESTMENTS

SFAS No. 157, Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable information for similar items in active or inactive markets and have a lower priority, and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. The Foundation's available-for-sale securities are reported at fair value.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 4 – INVESTMENTS (continued)

All debt and equity securities have readily determinable values and include the following as of December 31, 2015 with comparative totals for December 31, 2014.

	Fair Value Measurements 2015 Using Quoted Prices in Active Markets for		
	Identical Assets (Level 1)	Similar Assets (Level 2)	Total
Donor Advised	\$ 24,062,849	\$ 258,016	\$ 24,320,865
Donor Designated	21,183,617	-	21,183,617
Nonprofit Funds	15,845,509	-	15,845,509
Field of Interest	8,434,425	-	8,434,425
Scholarship	4,024,156	-	4,024,156
ETCF Unrestricted Charitable Project	321,469 552,459	- -	321,469 552,459
	<u>\$ 74,424,484</u>	<u>\$ 258,016</u>	<u>\$ 74,682,500</u>

	Fair Value Measurements 2014 Using Quoted Prices in Active Markets for		
	Identical Assets (Level 1)	Similar Assets (Level 2)	Total
Donor Advised	\$ 22,089,022	\$ 324,517	\$ 22,413,539
Donor Designated	16,095,915	-	16,095,915
Nonprofit Funds	16,094,398	-	16,094,398
Field of Interest	9,243,328	-	9,243,328
Scholarship	4,174,528	-	4,174,528
ETCF Unrestricted Charitable Project	532,407 587,170	- -	532,407 587,170
	<u>\$ 68,816,768</u>	<u>\$ 324,517</u>	<u>\$ 69,141,285</u>

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 4 – INVESTMENTS (continued)

As of December 31, 2015, investments by type of fund are as follows (with comparative totals from December 31, 2014):

	Fair Value Measurements		
	2015		
	Using Quoted Prices in Active Markets for		
	Identical Assets (Level 1)	Similar Assets (Level 2)	Total
Money Market Funds	\$ 3,969,639	\$ -	\$ 3,969,639
US Treasuries & Govt Agencies	5,832,648	-	5,832,648
Asset-Backed Securities	4,435,355	-	4,435,355
Corporate Bonds and Notes	1,157,742	-	1,157,742
Closed-End Funds, Exchange Traded Products, and REITs	1,836,123	-	1,836,123
Hedge Funds	640,746	-	640,746
Mutual Funds	13,051,351	-	13,051,351
Common Stock	43,252,154	-	43,252,154
Preferred Securities		-	-
Certificates of Deposit	234,746	-	234,746
Investment in Mineral Interests	-	258,048	258,048
Other	-	13,948	13,948
	<u>\$ 74,410,504</u>	<u>\$ 271,996</u>	<u>\$ 74,682,500</u>

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 4 – INVESTMENTS (continued)

	Fair Value Measurements		
	2014		
	Using Quoted Prices in Active Markets for		
	Identical Assets (Level 1)	Similar Assets (Level 2)	Total
Money Market Funds	\$ 4,366,656	\$ -	\$ 4,366,656
US Treasuries & Govt Agencies	7,115,692	-	7,115,692
Asset-Backed Securities	1,749,478	-	1,749,478
Corporate Bonds and Notes	368,907	-	368,907
Closed-End Funds and Exchange Traded Products, and REITs	1,170,642	-	1,170,642
Hedge Funds	946,503	-	946,503
Mutual Funds	10,424,248	-	10,424,248
Common Stock	42,518,753	-	42,518,753
Preferred Securities	20,889	-	20,889
Certificates of Deposit	135,000	-	135,000
Investment in Mineral Interests	-	310,569	310,569
Other	-	13,948	13,948
	<u>\$ 68,816,768</u>	<u>\$ 324,517</u>	<u>\$ 69,141,285</u>

Fair value of Mineral Interests represents an estimate only, calculated from the most recent twelve months net income from producing properties and includes a nominal value applied to non-producing properties.

NOTE 5 – EMPLOYEE BENEFIT PLANS

The Foundation has in place for its employees a defined contribution retirement plan qualified for deferred income tax treatment by the Internal Revenue Service; under this plan, the Foundation matches each employee's annual contributions to the plan up to a maximum of 3% of each employee's annual pay. The Foundation's cost of matching contributions was \$5,857 and \$3,189 in 2015 and 2014, respectively.

NOTE 6 – ACCRUED COMPENSATED ABSENCES

The Foundation offers paid time off to its employees, who are permitted to carry over unused time off to future years. Total accrued compensated absences were \$10,280 and \$7,425 as of December 31, 2015 and 2014, respectively.