

**EAST TEXAS COMMUNITIES FOUNDATION, INC.**

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

**DECEMBER 31, 2017**

**EAST TEXAS COMMUNITIES FOUNDATION, INC.**  
**TABLE OF CONTENTS**  
**December 31, 2017**

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-13



## **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. (non-profit organization) (Foundation), which comprise the consolidated statement of financial position as of December 31, 2017, 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.

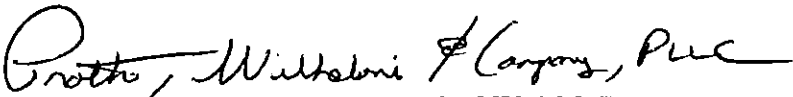
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PROTHRO, WILHELM AND COMPANY, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

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## 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, 2017 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.

  
PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas  
August 6, 2018

**EAST TEXAS COMMUNITIES FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2017**  
**(With Summarized Totals for 2016)**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,028,961	\$ 1,112,722
Investments	108,782,677	79,343,776
Property and equipment, net	27,299	22,934
Other assets	7,338	20,695
Total Assets	\$ 109,846,275	\$ 80,500,127
 <b>LIABILITIES</b>		
Grants payable	\$ 36,350	\$ 62,500
Administrative expenses payable	20,779	7,828
Accrued compensated absences	14,065	14,147
Funds held as agency endowments	10,993,664	9,317,487
Total Liabilities	11,064,858	9,401,962
 <b>NET ASSETS</b>		
Unrestricted	1,812,640	1,577,502
Temporarily restricted	96,968,777	69,520,663
Total Net Assets	98,781,417	71,098,165
Total Liabilities and Net Assets	\$ 109,846,275	\$ 80,500,127

See accompanying notes to financial statements.

**EAST TEXAS COMMUNITIES FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**DECEMBER 31, 2017**  
**(With Summarized Totals for 2016)**

	Total Year Ended December 31,			
	Unrestricted	Temporarily Restricted	2017	2016
<b>Revenue and Other Support:</b>				
Contributions received	\$ 11,565	\$ 24,965,514	\$ 24,977,079	\$ 7,630,359
Interest and dividends	45,751	1,889,823	1,935,574	1,869,977
Net realized gains on sales	55,593	1,447,074	1,502,667	498,358
Net unrealized gains	113,841	7,367,510	7,481,351	1,399,950
Income from mineral interests	-	24,852	24,852	24,818
Admin fees from				
agency endowments	87,112	-	87,112	85,315
Other income	35,943	52,413	88,356	26,848
Net assets released from restrictions	8,299,072	(8,299,072)	-	-
<b>Total revenue and other support</b>	<b>8,648,877</b>	<b>27,448,114</b>	<b>36,096,991</b>	<b>11,535,625</b>
<b>Expenses:</b>				
Supporting services				
Salaries and benefits	470,594	-	470,594	409,613
Professional fees	20,079	-	20,079	20,192
Insurance	7,522	-	7,522	5,435
Investment management fees	454,791	-	454,791	363,024
Other investment	35,788	-	35,788	4,677
Marketing/promotion	69,614	-	69,614	83,880
Other administration	155,556	-	155,556	99,726
Rent	20,643	-	20,643	20,703
Depreciation	6,019	-	6,019	2,858
	1,240,606	-	1,240,606	1,010,108
Program services				
Grants	7,173,133	-	7,173,133	6,647,506
<b>Total expenses</b>	<b>8,413,739</b>	<b>-</b>	<b>8,413,739</b>	<b>7,657,614</b>
Changes in net assets	235,138	27,448,114	27,683,252	3,878,011
Net assets, beginning of year	1,577,502	69,520,663	71,098,165	67,220,154
<b>Net assets, end of year</b>	<b>\$ 1,812,640</b>	<b>\$ 96,968,777</b>	<b>\$ 98,781,417</b>	<b>\$ 71,098,165</b>

See accompanying notes to financial statements.

**EAST TEXAS COMMUNITIES FOUNDATION, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**DECEMBER 31, 2017**  
**(With Summarized Totals for 2016)**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 27,683,252	\$ 3,878,011
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	6,019	2,858
Donated non-cash assets	(19,663,573)	-
Unrestricted and temporarily restricted investments:		
Net realized gains	(1,502,667)	(498,358)
Net unrealized gains	(7,481,351)	(1,399,950)
Agency endowments:		
Net realized gains	(241,626)	(36,870)
Net unrealized gains	(881,485)	(280,122)
(Increase) decrease in other current assets	13,357	(4,392)
Increase in funds held as agency endowments	1,676,177	660,142
Increase (decrease) in grants payable	(26,150)	2,450
Increase in administrative expenses payable	12,951	7,398
Increase (decrease) in accrued compensated absences	(82)	3,867
	<b>(405,178)</b>	<b>2,335,034</b>
Net cash (used in) provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments and reinvested earnings	(28,874,303)	(26,467,546)
Proceeds from sale of investments	29,206,104	24,021,570
Purchases of equipment	(10,384)	-
	<b>321,417</b>	<b>(2,445,976)</b>
Net cash (used in) provided by investing activities		
Net decrease in cash	(83,761)	(110,942)
Beginning cash	1,112,722	1,223,664
Ending cash	\$ 1,028,961	\$ 1,112,722

See accompanying notes to financial statements.

**EAST TEXAS COMMUNITIES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

General

The Foundation is a non-profit 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 non-profit organizations approved by the Internal Revenue Service in accordance with Internal Revenue Code section 501(c)(3). The Foundation's accounting records and reporting are 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, 2017**

**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 2015 to 2017 remain open for examination by taxing authorities.

Donated Assets & Services

Donated marketable securities and other non-cash 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, 2017**

**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. Investments in virtual currency are carried at fair market value as determined by using quoted prices from a virtual currency exchange.

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 include 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, 2016, 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.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation.

**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, 2017 consist of donations received and the income earned from investing those donations less distributions.

**EAST TEXAS COMMUNITIES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment is summarized as follows at December 31, 2017, with comparative totals for December 31, 2016:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 101,660	\$ 98,310
Leasehold improvements	20,432	13,398
Total	<u>122,092</u>	<u>111,708</u>
Less: Accumulated depreciation	<u>94,793</u>	<u>88,774</u>
	<u>\$ 27,299</u>	<u>\$ 22,934</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.

All debt and equity securities have readily determinable values and include the following as of December 31, 2017, with comparative totals for December 31, 2016:

	Fair Value Measurements		
	2017		
	Using Quoted Prices		
	in Active Markets for		
	Identical Assets (Level 1)	Similar Assets (Level 2)	Total
Donor Advised	\$ 29,350,106	\$ 19,661,650	\$ 49,011,756
Donor Designated	23,629,169	-	23,629,169
Nonprofit Funds	21,119,636	-	21,119,636
Field of Interest	8,822,962	-	8,822,962
Scholarship	5,102,176	-	5,102,176
ETCF Unrestricted Charitable	444,297	-	444,297
Project	652,681	-	652,681
	<u>\$ 89,121,027</u>	<u>\$ 19,661,650</u>	<u>\$108,782,677</u>

**EAST TEXAS COMMUNITIES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 4 – INVESTMENTS (continued)**

	Fair Value Measurements 2016 Using Quoted Prices in Active Markets for		
	Identical Assets (Level 1)	Similar Assets (Level 2)	Total
Donor Advised	\$ 26,547,767	\$ 225,554	\$ 26,773,321
Donor Designated	20,960,759	-	20,960,759
Nonprofit Funds	17,727,983	-	17,727,983
Field of Interest	8,398,416	-	8,398,416
Scholarship	4,506,893	-	4,506,893
ETCF Unrestricted Charitable Project	419,343 557,061	- -	419,343 557,061
	<u>\$ 79,118,222</u>	<u>\$ 225,554</u>	<u>\$ 79,343,776</u>

**EAST TEXAS COMMUNITIES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 4 – INVESTMENTS (continued)**

As of December 31, 2017, investments by type of fund are as follows (with comparative totals from December 31, 2016):

	Fair Value Measurements 2017 Using Quoted Prices in Active Markets for		
	Identical Assets (Level 1)	Similar Assets (Level 2)	Total
Money Market Funds	\$ 3,666,161	\$ -	\$ 3,666,161
US Treasuries & Govt Agencies	6,158,911	-	6,158,911
Asset-Backed Securities	5,858,439	-	5,858,439
Corporate Bonds and Notes	1,932,308	-	1,932,308
Closed-End Funds, Exchange Traded Products, and REITs	2,481,509	-	2,481,509
Hedge Funds	48,505	-	48,505
Mutual Funds	15,309,631	-	15,309,631
Common Stock	53,586,806	-	53,586,806
Investment in Mineral Interests	-	32	32
Virtual Currency	-	17,405,547	17,405,547
Land	-	1,836,129	1,836,129
Natural Resources	-	419,942	419,942
Other	78,757	-	78,757
	<u>\$ 89,121,027</u>	<u>\$ 19,661,650</u>	<u>\$108,782,677</u>

**EAST TEXAS COMMUNITIES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 4 – INVESTMENTS (continued)**

	Fair Value Measurements		
	2016		
	Using Quoted Prices in Active Markets for		
	Identical Assets (Level 1)	Similar Assets (Level 2)	Total
Money Market Funds	\$ 2,561,705	\$ -	\$ 2,561,705
US Treasuries & Govt Agencies	6,124,334	-	6,124,334
Asset-Backed Securities	4,786,524	-	4,786,524
Corporate Bonds and Notes	1,311,735	-	1,311,735
Closed-End Funds and Exchange Traded Products, and REITs	1,899,852	-	1,899,852
Hedge Funds	603,236	-	603,236
Mutual Funds	13,982,893	-	13,982,893
Common Stock	47,793,088	-	47,793,088
Investment in Mineral Interests	-	225,554	225,554
Other	54,855	-	54,855
	<u>\$ 79,118,222</u>	<u>\$ 225,554</u>	<u>\$ 79,343,776</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.

During the year ended 2017, the Foundation received non-cash contributions which were classified as investments.

**NOTE 5 – EMPLOYEE BENEFIT PLANS**

The Foundation has in place, for its employees, a SIMPLE IRA defined contribution retirement plan (Plan) qualified for deferred income tax treatment by the Internal Revenue Service. Under the Plan, the Foundation contributes 3% of the employee's annual pay to the Plan. The Foundation's contributions to the Plan were \$9,519 and \$3,049 for 2017 and 2016, 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 as of December 31, 2017 and 2016, were \$14,065 and \$14,147, respectively.

**EAST TEXAS COMMUNITIES FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 7 – CONCENTRATIONS OF RISK**

The Foundation received two separate donated assets as one-time gifts which amounted to approximately seventy-five percent of the total revenue of the Foundation for the year ended December 31, 2017. The donated assets were fully liquidated prior to the issuance of the 2017 financial statements. There was a net decline in value of the donated assets of approximately twenty-eight percent after year end, but prior to liquidation, due to the volatile nature of the donated assets.

**NOTE 8 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through August 6, 2018, the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.