

EAST TEXAS COMMUNITIES FOUNDATION, INC.

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

DECEMBER 31, 2019 AND 2018

EAST TEXAS COMMUNITIES FOUNDATION, INC.
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INDEPENDENT AUDITOR'S REPORT

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

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, 2019 and 2018 and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

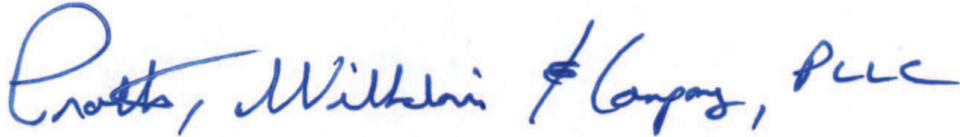
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PROTHRO, WILHELMI 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, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads "Prothro, Wilhelmi & Company, PLLC". The signature is written in a cursive, flowing style.

PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
August 12, 2020

EAST TEXAS COMMUNITIES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 2,415,861	\$ 3,597,703
Pledges receivable	87,391	255
Investments	112,654,206	93,056,255
Property and equipment, net	<u>17,619</u>	<u>20,122</u>
Total Assets	<u>\$ 115,175,077</u>	<u>\$ 96,674,335</u>
LIABILITIES		
Grants payable	\$ 82,000	\$ 40,556
Administrative expenses payable	16,282	6,774
Accrued compensated absences	19,955	20,618
Funds held as agency endowments	<u>12,733,531</u>	<u>10,351,125</u>
Total Liabilities	<u>12,851,768</u>	<u>10,419,073</u>
NET ASSETS		
Without donor restrictions	2,114,204	1,771,104
With donor restrictions	<u>100,209,105</u>	<u>84,484,158</u>
Total Net Assets	<u>102,323,309</u>	<u>86,255,262</u>
Total Liabilities and Net Assets	<u>\$ 115,175,077</u>	<u>\$ 96,674,335</u>

See accompanying notes to financial statements.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total 2019
Revenue and Other Support:			
Contributions received	\$ 4,899	\$ 15,106,015	\$ 15,110,914
Interest and dividends	71,854	2,566,149	2,638,003
Net realized gains	48,378	1,727,589	1,775,967
Net unrealized gains	184,672	9,540,738	9,725,410
Income from mineral interests	-	363,334	363,334
Administrative fees from agency endowments	101,348	-	101,348
Other	18,025	1,976	20,001
Net assets released from restrictions	13,580,854	(13,580,854)	-
Total revenue and other support	14,010,030	15,724,947	29,734,977
Expenses:			
Program	13,243,267	-	13,243,267
Management and general	153,556	-	153,556
Fundraising/marketing	270,107	-	270,107
Total expenses	13,666,930	-	13,666,930
Changes in net assets	343,100	15,724,947	16,068,047
Net assets, beginning of year	1,771,104	84,484,158	86,255,262
Net assets, end of year	\$ 2,114,204	\$ 100,209,105	\$ 102,323,309

See accompanying notes to financial statements.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2018</u>
Revenue and Other Support:			
Contributions received	\$ 1,290	\$ 11,760,753	\$ 11,762,043
Interest and dividends	55,810	2,060,703	2,116,513
Net realized gains (losses)	48,895	(3,512,569)	(3,463,674)
Net unrealized losses	(144,582)	(6,718,688)	(6,863,270)
Income from mineral interests	-	49,037	49,037
Administrative fees from agency endowments	96,055	-	96,055
Other	15,705	1,736	17,441
Net assets released from restrictions	16,125,591	(16,125,591)	-
Total revenue and other support	<u>16,198,764</u>	<u>(12,484,619)</u>	<u>3,714,145</u>
Expenses:			
Program	15,930,834	-	15,930,834
Management and general	122,926	-	122,926
Fundraising/marketing	186,540	-	186,540
Total expenses	<u>16,240,300</u>	<u>-</u>	<u>16,240,300</u>
Changes in net assets	(41,536)	(12,484,619)	(12,526,155)
Net assets, beginning of year	<u>1,812,640</u>	<u>96,968,777</u>	<u>98,781,417</u>
Net assets, end of year	<u>\$ 1,771,104</u>	<u>\$ 84,484,158</u>	<u>\$ 86,255,262</u>

See accompanying notes to financial statements.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

Account Description	Program	Management & General Expenses	Fund Raising/ Marketing	Total Expenses
Program Services	\$ 12,300,987	\$ 431	\$ 775	\$ 12,302,193
Investment Related Expenses	560,542	840	-	561,382
Personnel	256,341	101,461	182,763	540,565
Office Expense	44,805	18,779	33,106	96,690
Donor Relations	34,541	13,671	24,591	72,803
Professional Development	15,255	6,038	6,748	28,041
Professional Fees	9,478	3,751	6,748	19,977
Other Administration	17,370	7,022	12,565	36,957
Insurance	3,948	1,563	2,811	8,322
Total Expenses	<u>\$ 13,243,267</u>	<u>\$ 153,556</u>	<u>\$ 270,107</u>	<u>\$ 13,666,930</u>

See accompanying notes to financial statements.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

Account Description	Program	Management & General Expenses	Fund Raising/ Marketing	Total Expenses
Program Services	\$ 14,935,311	\$ 455	\$ 697	\$ 14,936,463
Investment Related Expenses	535,110	-	-	535,110
Personnel	315,974	82,952	127,130	526,056
Office Expense	58,170	16,781	24,003	98,954
Donor Relations	45,604	11,972	18,349	75,925
Professional Development	16,439	4,316	6,614	27,369
Professional Fees	11,207	2,942	4,509	18,658
Other Administration	8,327	2,276	3,350	13,953
Insurance	4,692	1,232	1,888	7,812
Total Expenses	<u>\$ 15,930,834</u>	<u>\$ 122,926</u>	<u>\$ 186,540</u>	<u>\$ 16,240,300</u>

See accompanying notes to financial statements.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 16,068,047	\$ (12,526,155)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	6,966	7,177
Donated securities	(3,433,767)	(2,109,721)
Net depreciation (appreciation) of investments	(9,626,338)	13,109,022
Increase in pledges receivable	(87,136)	(255)
Decrease in other assets	-	7,338
Increase in grants payable	41,444	4,206
Increase (decrease) in administrative expenses payable	9,508	(14,005)
Increase (decrease) in accrued compensated absences	(663)	6,553
Increase (decrease) in funds held as agency endowment	2,382,406	(642,539)
Net cash provided by (used in) operating activities	<u>5,360,467</u>	<u>(2,158,379)</u>
Cash flows from investing activities		
Purchase of fixed assets	(4,463)	-
Purchase of investments	(25,132,494)	(25,187,623)
Proceeds from sales and maturities of investments	18,594,648	29,914,744
Net cash provided by (used in) investing activities	<u>(6,542,309)</u>	<u>4,727,121</u>
Increase (decrease) in cash	(1,181,842)	2,568,742
Cash and cash equivalents, beginning of year	3,597,703	1,028,961
Cash and cash equivalents, end of year	<u>\$ 2,415,861</u>	<u>\$ 3,597,703</u>

See accompanying notes to financial statements.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF 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 permissible donor restrictions. In the absence of specific donor restrictions, 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 Foundation's financial statements are presented in accordance with Accounting Standards Codification (ASC) No. 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*. Under ASC No. 958, the Foundation is required to report information regarding its financial position and activities by class.

- Net Assets Without Donor Restrictions are amounts currently available at the discretion of the Board for use in the Foundation's operations and those resources invested in equipment and real estate.
- Net Assets With Donor Restrictions are stipulated by donors for specific operating purposes or for the acquisition of equipment.

In addition, the Foundation is required to present a statement of cash flows. All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions. Restricted gains and investment income whose restrictions are met in the same reporting period are reported as unrestricted support.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Financial Statement Presentation (continued)

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 nonprofit funds.

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

Contributions received are recorded as unrestricted or restricted support depending on the existence and/or nature of any donor restrictions.

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.

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 2016 to 2018 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.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

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.

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.

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.

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 Federal Deposit Insurance Corporation 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.

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 East Texas Communities Foundation, Inc.; 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.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, “*Revenue from Contracts with Customers*,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles (GAAP). This standard is effective for fiscal years beginning after December 15, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. The Foundation elected to use the cumulative effect method, which requires reporting net assets at the beginning of the year using the prior year revenue recognition method and subsequently reporting net assets after the effect of the new revenue recognition standard.

The majority of the Foundation’s revenue comes from contributions, which apart from any bifurcation required due to exchange-like portions of the contribution, are excluded from the application of ASU No. 2014-09. The Foundation’s contracts with grantor’s are the major revenue streams considered under this reporting model. As a result, there was no material change in revenue recognition due to the implementation of ASU No. 2014-09.

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in detail in the statement of functional expenses. Expenses were either allocated based on relative time spent or occupancy percentages.

NOTE 2 – RECLASSIFICATIONS

Certain reclassifications have been made to prior year financial statements to conform to classifications used in the current year. These reclassifications had no impact on net assets or changes in net assets.

NOTE 3 – NET ASSETS WITH DONOR RESTRICTIONS

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, 2019 and 2018 consist of donations received and the income earned from investing those donations less distributions.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at December 31, 2019 and 2018, respectively:

	2019	2018
Equipment	\$ 106,124	\$ 101,660
Leasehold improvements	20,432	20,432
Total Property and Equipment	126,556	122,092
Less: Accumulated depreciation	(108,937)	(101,970)
Net Property and Equipment	\$ 17,619	\$ 20,122

NOTE 5 – INVESTMENTS

Statements of Financial Accounting Standards (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, 2019 and 2018, respectively:

	Fair Value Measurements			
	12/31/2019			
	Using Quoted Prices			
	in Active Markets for			
	Identical Assets (Level 1)	Similar Assets (Level 2)	(Level 3)	Total
Donor Advised	\$ 36,149,700	\$ 2,763,253	\$ 2,281,974	\$ 41,194,927
Donor Designated	25,784,293	-	-	25,784,293
Nonprofit Funds	23,639,498	-	-	23,639,498
Field of Interest	11,568,894	-	-	11,568,894
Scholarship	9,404,957	-	-	9,404,957
Unrestricted Charitable	390,722	-	-	390,722
Project	670,915	-	-	670,915
Total Investments	\$ 107,608,979	\$ 2,763,253	\$ 2,281,974	\$ 112,654,206

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 – INVESTMENTS (continued)

	Fair Value Measurements 12/31/2018 Using Quoted Prices in Active Markets for				
	Identical Assets (Level 1)	Similar Assets (Level 2)		(Level 3)	Total
	\$	\$	\$	\$	\$
	35,370,151	32	-	-	35,370,183
Donor Advised	\$ 35,370,151	\$ 32	\$ -	\$ -	\$ 35,370,183
Donor Designated	21,506,396	-	-	-	21,506,396
Nonprofit Funds	20,122,846	-	-	-	20,122,846
Field of Interest	8,315,924	-	-	-	8,315,924
Scholarship	6,729,518	-	-	-	6,729,518
ETCF Unrestricted Charitable Project	373,889 637,499	-	-	-	373,889 637,499
	\$ 93,056,223	\$ 32	\$ -	\$ -	\$ 93,056,255

As of December 31, 2019 and 2018, respectively, investments by type of fund are as follows:

	Fair Value Measurements 12/31/2019 Using Quoted Prices in Active Markets for				
	Identical Assets (Level 1)	Similar Assets (Level 2)		(Level 3)	Total
	\$	\$	\$	\$	\$
	10,710,468	-	-	-	10,710,468
Money Market Funds	\$ 10,710,468	\$ -	\$ -	\$ -	\$ 10,710,468
US Treasuries & Government Agencies	6,145,583	-	-	-	6,145,583
Asset-Backed Securities	6,187,994	-	-	-	6,187,994
Corporate Bonds and Notes	2,004,420	-	-	-	2,004,420
Investment Trusts	4,280,206	-	-	-	4,280,206
Mutual Funds	17,251,490	-	-	-	17,251,490
Common Stock	60,681,375	-	-	-	60,681,375
Preferred Stock	5,880	-	-	-	5,880
Investment in Mineral Interests	-	32	-	-	32
Land	-	-	1,448,000	-	1,448,000
Natural Resources	-	-	833,974	-	833,974
Other	341,563	2,763,221	-	-	3,104,784
Total Investments	\$ 107,608,979	\$ 2,763,253	\$ 2,281,974	\$ -	\$ 112,654,206

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 – INVESTMENTS (continued)

	Fair Value Measurements 12/31/2018 Using Quoted Prices in Active Markets for			
	Identical Assets (Level 1)	Similar Assets (Level 2)	(Level 3)	Total
	\$	\$	\$	\$
Money Market Funds	11,459,224	-	-	11,459,224
US Treasuries & Government Agencies	5,865,182	-	-	5,865,182
Asset-Backed Securities	5,988,136	-	-	5,988,136
Corporate Bonds and Notes	1,884,966	-	-	1,884,966
Investment Trusts	3,422,498	-	-	3,422,498
Hedge Funds	37,695	-	-	37,695
Mutual Funds	15,658,100	-	-	15,658,100
Common Stock	48,406,326	-	-	48,406,326
Investment in Mineral Interests	-	32	-	32
Other	334,096	-	-	334,096
Total Investments	\$ 93,056,223	\$ 32	\$ -	\$ 93,056,255

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 December 31, 2019, the Foundation received non-cash contributions which were classified as investments.

NOTE 6 – 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 \$13,599 and \$12,424 for 2019 and 2018, respectively.

NOTE 7 – ACCRUED COMPENSATED ABSENCES

The Foundation offers paid time off to its employees, who are permitted to carry over unused time to future years. Total accrued compensated absences as of December 31, 2019 and 2018, were \$19,955 and \$20,618, respectively.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 8 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation is substantially supported by restricted contributions. Because a donor’s restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. The Foundation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Foundation’s financial assets available within one year of December 31, 2019 and 2018, respectively, for general expenditure are as follows:

	2019	2018
Cash and cash equivalents	\$ 2,415,861	\$ 3,597,703
Pledges receivable	87,391	255
Investments	112,654,206	93,056,255
Total financial assets available within one year	115,157,458	96,654,213
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with time or purpose restrictions	(109,999,511)	(92,452,296)
Total financial assets available to management for general expenditure within one year	\$ 5,157,947	\$ 4,201,917

NOTE 9 – UNDERWATER ENDOWMENT FUNDS

According to ASC No. 958, underwater endowment funds are funds which have a fair value that is less than either the original gift amount or the amount required to be maintained by the donor. Decisions regarding possible underwater endowment funds fall to the discretion of the Program Manager. The Foundation has several endowment funds with a gift amount that exceeds the fair value. However, the majority of the aforementioned funds were in compliance with the respective donor’s requirement. Based on the definition of an underwater endowment, the Foundation considers only those funds that are non-compliant with donor requirements to be underwater. Total underwater endowments are calculated as below. Since the total amount deemed underwater is small compared to total endowments, the underwater funds do not affect the Foundation’s spending policies or financial flexibility.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 9 – UNDERWATER ENDOWMENTS (continued)

As of December 31, 2019 and 2018, respectively, underwater endowments are as follows:

	2019	2018
Aggregate original gift amount	325,209	\$176,330
Aggregate fair value of funds	(258,578)	(124,493)
Total underwater endowments	\$ 66,631	\$ 51,837

NOTE 10 – NEW ACCOUNTING GUIDANCE NOT YET ADOPTED

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (except for short-term leases) at the commencement date:

- Lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

Additional qualitative and quantitative disclosures will be required so users can understand more about the nature of an entity’s leasing activities. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 12, 2020, the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure. As part of this evaluation, management considered the effects of the COVID-19 pandemic, which occurred and was in effect after year-end but prior to the issuance of the financial statements. This pandemic had no significant effect on the Foundation’s operations, financial position, or activities, as a whole.