

EAST TEXAS COMMUNITIES FOUNDATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS
(with Independent Auditor's Report thereon)

DECEMBER 31, 2024 AND 2023

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

To the Board of Directors
of East Texas Communities Foundation, Inc.

Opinion

We have audited the accompanying consolidated financial statements of East Texas Communities Foundation, Inc. ("the Foundation"), which comprise the consolidated statements of financial position as of December 31, 2024 and 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation and affiliates as of December 31, 2024 and 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundations's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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, 2025

EAST TEXAS COMMUNITIES FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,872,585	\$ 1,173,152
Pledges receivable	20,392	30,832
Investments	134,948,047	132,128,620
Total current assets	<u>137,841,024</u>	<u>133,332,604</u>
Non-current assets:		
Property and equipment, net	21,959	33,205
Total non-current assets	<u>21,959</u>	<u>33,205</u>
Total assets	<u>\$ 137,862,983</u>	<u>\$ 133,365,809</u>
LIABILITIES		
Current liabilities:		
Grants payable	\$ 150,429	\$ 542,801
Administrative payables	6,377	37,798
Accrued compensated absences	26,680	28,512
Funds held as agency endowments	14,458,592	15,440,882
Total current liabilities	<u>14,642,078</u>	<u>16,049,993</u>
Total liabilities	<u>14,642,078</u>	<u>16,049,993</u>
NET ASSETS		
Without donor restrictions	1,722,354	2,287,497
With donor restrictions	<u>121,498,551</u>	<u>115,028,319</u>
Total net assets	<u>123,220,905</u>	<u>117,315,816</u>
Total liabilities and net assets	<u>\$ 137,862,983</u>	<u>\$ 133,365,809</u>

See accompanying notes to financial statements.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions received	\$ 29,794	\$ 12,448,446	\$ 12,478,240
Interest and dividends	246,399	3,429,073	3,675,472
Net realized gains	225,347	4,603,452	4,828,799
Net unrealized gains (losses)	(67,032)	3,748,121	3,681,089
Income from mineral interests	76,599	48,407	125,006
Administrative fees from agency endowments	137,967	-	137,967
Other	75,674	-	75,674
Total support and revenue	<u>724,748</u>	<u>24,277,499</u>	<u>25,002,247</u>
Net assets released from restrictions:			
Satisfaction of donor restrictions	17,807,267	(17,807,267)	-
Total support, revenue and net assets released from restrictions	<u>18,532,015</u>	<u>6,470,232</u>	<u>25,002,247</u>
EXPENSES			
Program	18,736,833	-	18,736,833
Management and general	141,368	-	141,368
Fundraising/marketing	218,957	-	218,957
Total expenses	<u>19,097,158</u>	<u>-</u>	<u>19,097,158</u>
Changes in net assets	(565,143)	6,470,232	5,905,089
NET ASSETS			
Net assets, beginning of period	<u>2,287,497</u>	<u>115,028,319</u>	<u>117,315,816</u>
Net assets, end of period	<u>\$ 1,722,354</u>	<u>\$ 121,498,551</u>	<u>\$ 123,220,905</u>

See accompanying notes to financial statements.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions received	\$ 789,296	10,799,726	\$ 11,589,022
Interest and dividends	55,894	3,107,997	3,163,891
Net realized gains (losses)	(2,145)	2,370,662	2,368,517
Net unrealized gains	34,559	7,696,143	7,730,702
Income from mineral interests	47,185	53,626	100,811
Administrative fees from agency endowments	119,056	-	119,056
Other	69,579	-	69,579
Total support and revenue	<u>1,113,424</u>	<u>24,028,154</u>	<u>25,141,578</u>
Net assets released from restrictions:			
Satisfaction of donor restrictions	14,598,729	(14,598,729)	-
Total support, revenue and net assets released from restrictions	<u>15,712,153</u>	<u>9,429,425</u>	<u>25,141,578</u>
EXPENSES			
Program	15,718,632	-	15,718,632
Management and general	142,677	-	142,677
Fundraising/marketing	233,582	-	233,582
Total expenses	<u>16,094,892</u>	<u>-</u>	<u>16,094,892</u>
Changes in net assets	(382,739)	9,429,425	9,046,686
NET ASSETS			
Net assets, beginning of period	<u>2,670,236</u>	<u>105,598,894</u>	<u>108,269,130</u>
Net assets, end of period	<u>\$ 2,287,497</u>	<u>\$ 115,028,319</u>	<u>\$ 117,315,816</u>

See accompanying notes to financial statements.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2024

Account Description	Program	Management and General	Fundraising/ Marketing	Total Expenses
Program services	\$ 17,370,977	\$ -	\$ -	\$ 17,370,977
Investment related expenses	655,210	-	-	655,210
Personnel	386,285	138,117	214,192	738,594
Office expense	136,852	1,371	2,010	140,234
Donor relations	97,163	974	1,427	99,564
Professional development	36,615	367	538	37,520
Professional fees	29,037	291	427	29,755
Other administration	11,281	113	166	11,560
Insurance	13,413	134	197	13,744
Total expenses	<u>\$ 18,736,833</u>	<u>\$ 141,368</u>	<u>\$ 218,957</u>	<u>\$ 19,097,158</u>

See accompanying notes to financial statements.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023

Account Description	Program	Management and General	Fundraising/ Marketing	Total Expenses
Program services	\$ 14,432,297	\$ -	\$ -	\$ 14,432,297
Investment related expenses	551,283	-	-	551,283
Personnel	408,188	138,382	226,513	773,083
Office expense	153,300	2,015	3,315	158,630
Donor relations	73,466	965	1,589	76,020
Professional development	33,236	437	719	34,392
Professional fees	35,067	461	758	36,286
Other administration	18,750	246	406	19,402
Insurance	13,045	171	282	13,499
Total expenses	<u>\$ 15,718,632</u>	<u>\$ 142,677</u>	<u>\$ 233,582</u>	<u>\$ 16,094,892</u>

See accompanying notes to financial statements.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,905,089	\$ 9,046,686
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	12,640	17,085
Donated securities	-	(575,918)
Net appreciation of investments	(12,310,366)	(13,363,919)
Changes in assets and liabilities:		
Decrease in pledges receivable	10,440	8,474
Increase (decrease) in grants payable	(392,372)	406,002
Increase (decrease) in administrative expenses payable	(31,421)	22,263
Increase (decrease) in accrued compensated absences	(1,832)	60
Increase (decrease) in funds held as agency endowment	(982,290)	2,040,805
Net cash used in operating activities	<u>(7,790,112)</u>	<u>(2,398,462)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(1,394)	(8,077)
Purchase of investments	(19,304,599)	(82,974,454)
Proceeds from sales and maturities of investments	28,795,538	83,461,802
Net cash provided by investing activities	<u>9,489,545</u>	<u>479,271</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>1,699,433</u>	<u>(1,919,191)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>1,173,152</u>	<u>3,092,343</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 2,872,585</u>	<u>\$ 1,173,152</u>

See accompanying notes to financial statements.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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* – Net assets available for general use and not subject to donor restrictions. The Foundation's policy is to designate unrestricted donor gifts at the discretion of the Board of Directors. Net assets without donor restriction also include the investment in property and equipment.
- *Net Assets With Donor Restrictions* – Net assets that are contributions and endowment investments earnings subject to donor-imposed restrictions. The Foundation may report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. Donors may make recommendations of donor advised funds to restricted funds held by the Foundation. These transfers are shown on the statement of activities as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of December 31, 2024 and 2023, the Foundation's net assets with donor restrictions are restricted for funding various community educational and philanthropic programs specified by the donors.

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 in which restrictions are met in the same reporting period, are reported as unrestricted support.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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 agency 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 2021 to 2023 remain open for examination by taxing authorities.

Donated Financial Assets

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.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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

Cash and Cash Equivalents

The Foundation considers all highly liquid financial instruments purchased with original maturities of three months or less, which are not held within its investment portfolios, to be cash and cash equivalents. Cash and highly liquid financial instruments included in investment portfolios are excluded from this definition.

Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Conditional promises to give are recorded as pledges receivables. Any allowance for uncollectible amounts is based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fundraising activity. Currently, the Foundation does not maintain an allowance for uncollectible amounts due to no historical precedent of donors not paying their pledges in full.

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 classified as short-term investments. Investments in common and preferred stocks, bonds, U.S. Treasury bills and government agency securities, mutual funds, and mineral interests are reported at fair market value. Fair value is based on quoted market prices, when available, or on valuations provided by third-party custodians or fund managers.

All investments are reported as current assets. Although some securities have maturity dates extending beyond one year from the reporting date, all investments are classified as available for sale and may be liquidated as needed. As such, management considers all investments to be current due to their unrestricted availability for use within the normal operating cycle.

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.

Grants Payable

Grants payable represent unconditional commitments to provide funding that have been communicated to recipients but not yet disbursed as of year-end. These amounts are recorded as liabilities and classified as current or long-term based on the expected timing of payment. Conditional grants are not recorded until the conditions have been substantially met.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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

Administrative Payables

Administrative payables consist primarily of amounts due for general operating expenses, including professional services, office supplies, utilities, software subscriptions, and other administrative costs incurred in the normal course of operations. These payables are typically short-term in nature and are settled within standard vendor payment terms.

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. Advertising expense for the year ended December 31, 2024 and 2023 was \$13,990 and \$11,614.

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases” (“Topic 842”), which supersedes existing guidance for accounting for leases under Topic 840, Leases. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU 2018-10, Codification Improvements to Topic 842 Leases; ASU 2018-11, Leases (Topic 842): Targeted Improvements; ASU 2018-20 Narrow-scope Improvements for Lessors; and ASU 2019-01, Leases (Topic 842): Codification Improvements. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (“ROU”) assets and lease liabilities for operating leases on the statements of financial position.

The Foundation evaluated its lease arrangements and determined that the requirements of Topic 842 do not apply, either because the lease terms do not exceed 12 months or the financial impact of adoption would be insignificant. As of December 31, 2024, the Foundation is party to two lease agreements: one for office space and one for technology hosting services. Lease expense is recognized on a straight-line basis over the term of the leases.

Reporting Entity

The consolidated financial statements include the East Texas Communities Foundation, Inc. and its affiliated organization, ETCF Support Foundation and the Thomas R. Brown Family 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 CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

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

Reporting Entity (continued)

During the fiscal year ended December 31, 2023, the Foundation assumed control of the assets from the Thomas R. Brown Family Foundation, a separate legal entity. A separate division within the Foundation's record keeping system was established to track these funds. To integrate these assets, a one-time contribution was recorded on the date of assumption and all activities prior to the acquisition were excluded, while post-assumption activities were recorded as the Foundation's responsibility. Any inter-organization activities between the Thomas R. Brown Family Foundation and the Foundation were tracked and eliminated during consolidation.

Revenue Recognition

ASU No. 2014-09, "*Revenue from Contracts with Customers*," 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 Foundation's revenue comes from contributions and investment earnings, which are not considered contracts under this model because the transactions lack an exchange of commensurate value. Accordingly, the Foundation has no contract balances at the beginning or ending of the years presented herein.

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

The Foundation has established prudent investment and spending policies with the objective of maintaining the purchasing power of its endowed assets in perpetuity and providing a stable level of support to its beneficiaries. To achieve this objective, the Foundation periodically reviews and adjusts its asset allocation strategy to target a total return that offsets inflation, covers administrative expenses and spending allocations, and minimizes volatility.

The Foundation's Board of Directors determines the spending rate, which is currently set at 5.0% of prior year's balance. This rate is established with consideration given to prevailing market conditions and the spending practices of peer institutions and is applied to the prior year's ending fund balance.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 3 – NET ASSETS WITH DONOR RESTRICTIONS (continued):

Restricted funds are donations received that are designated by the donor for a specific purpose, area of community life, or beneficiary institution. The restricted funds at December 31, 2024 and 2023 consist of donations received and the related income earned from investing those donations, less any distributions made in accordance with the donor-imposed restrictions.

As of December 31, 2024, approximately \$9,023,101 of the Foundation's restricted funds had been appropriated for expenditure in accordance with the Foundation's spending policy and donor intent. These amounts represent the portion of restricted net assets that are available to support grantmaking activities, while the remainder continues to be held in accordance with donor-imposed restrictions on principal or timing of use. Further, \$60,770,934 of the Foundation's restricted funds are restricted in perpetuity and represent the initial principal donated to various funds.

NOTE 4 – AGENCY ENDOWMENT FUNDS

FASB ASC 958 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 another entity that is specified by the donor. FASB ASC 958 specifically requires that if a 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 FASB ASC 958, a liability has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected be made to the NPOs.

At December 31, 2024 and 2023, the Foundation was the owner of forty-seven agency endowment funds with a combined value of \$ 14,458,592 and \$15,440,882, respectively. The following table summarizes activity in such funds during the years ended December 31, 2024 and 2023:

	2024	2023
Agency endowment fund balances at beginning of year	\$ 15,440,882	\$ 13,400,077
Net investment income	1,799,127	1,903,030
Contributions	793,929	652,472
Grants	(3,440,051)	(399,083)
Administrative expenses	(135,295)	(119,056)
Other	-	3,442
Agency endowment fund balances at end of year	<u>\$ 14,458,592</u>	<u>\$ 15,440,882</u>

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at December 31, 2024 and 2023, respectively:

	<u>2024</u>	<u>2023</u>
Equipment	\$ 85,097	\$ 83,703
Leasehold improvements	75,959	75,959
Total Property and Equipment	161,056	159,662
Less: Accumulated depreciation	(139,097)	(126,457)
Net Property and Equipment	<u>\$ 21,959</u>	<u>\$ 33,205</u>

NOTE 6 – FAIR VALUE MEASUREMENTS

The Foundation follows FASB ASC Topic 820, *Fair Value Measurement*, which establishes a framework for measuring fair value and requires disclosures about fair value measurements. Topic 820 defines 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 rely on unobservable inputs and have the lowest priority. The Foundation uses appropriate valuation techniques based on the nature of the investment and the availability of observable inputs. When available, the Foundation measures fair value using Level 1 inputs, as they generally provide the most reliable evidence of fair value. The Foundation's available-for-sale securities are reported at fair value.

The fair value hierarchy under ASC Topic 820 is summarized as follows:

- Level 1 valuations are based on quoted market prices for identical assets or liabilities traded in active markets (including exchanges and over-the-counter markets with sufficient volume).
- Level 2 valuations are based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 valuations are generated from model-based techniques that use significant assumptions not observable in the market but based on Foundation-specific data. These unobservable inputs reflect the Foundation's own estimates of the assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include discounted cash flow models, option pricing models, or market approaches using non-identical comparables.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 6 – FAIR VALUE MEASUREMENTS (continued):

The following is a description of the valuation methodologies used by the Foundation for assets measured at fair value as of December 31, 2024 and 2023. These methods are consistent with those used in prior periods and are evaluated annually to ensure continued appropriateness under ASC Topic 820:

- *Money Market Funds* – Valued at a net asset value (“NAV”) of one dollar per share in an open and active market.
- *US Treasuries & Government Agencies* – Valued using quoted prices in active markets, if available. When quoted prices are not available, valuations are based on yields currently available on comparable instruments or observable market inputs.
- *Corporate Bonds and Notes* – Valued using observable market inputs, including yields currently available on comparable securities of issuers with similar credit ratings.
- *Exchange-Traded Funds* - Valued at the closing price reported on the active exchange in which the fund is traded.
- *Mutual Funds* – Valued at the NAV of shares held at year-end.
- *Common Stock* – Valued at the closing price reported on the active exchange in which the individual securities are traded.
- *Preferred Stock* – Valued using quoted market prices, if available, or other observable inputs such as pricing for similar instruments or discounted cash flow models when market prices are not readily available.
- *Mineral Interests* – Valued based on third-party appraisals or valuation reports provided by the brokerage or custodian, which consider factors such as recent royalty payments, reserve reports, market comparables, and pricing assumptions. These are classified within Level 3 of the fair value hierarchy due to the use of significant unobservable inputs.
- *Privately Held Stock* - Valued based on available financial information, recent transactions, and comparable market data, as applicable.

Although mutual funds are measured using NAV, the Foundation’s holdings are in publicly traded mutual funds with quoted per-share prices that are readily available in active markets. Because these funds have readily determinable fair values and are priced on a daily basis, they are classified within Level 1 of the fair value hierarchy in accordance with ASC Topic 820.

The Foundation uses NAV per unit or share, as provided by external investment managers, as the practical expedient estimate of the fair value of its alternative investments and mutual funds. Accordingly, such values may differ from values that would have been used had an active market for the investments existed. Alternative investments currently held and measured using NAV are not eligible for redemption and, accordingly, have no requirement for a redemption notice period. Mutual fund investments, however, are redeemable on demand and do not require a redemption notice period. There are no unfunded commitments for investments measured at NAV.

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NOTE 6 – FAIR VALUE MEASUREMENTS (continued):

All debt and equity securities have readily determinable values and include the following as of December 31, 2024 and 2023, respectively:

Fair Value Measurements					
12/31/2024					
	(Level 1)	(Level 2)	(Level 3)	NAV	Total
Donor Advised	\$ 5,567,648	\$ 30,486,681	\$ 662,687	\$ -	\$ 36,717,016
Donor Designated	6,779,460	-	-	-	6,779,460
Non-profit Funds	53,213,673	-	-	-	53,213,673
Field of Interest	16,085,351	-	-	-	16,085,351
Scholarship	15,818,821	-	-	-	15,818,821
Unrestricted Charitable	433,793	-	-	-	433,793
Project	21,036	-	-	-	21,036
Other	2,788,822	-	-	-	2,788,822
Total investments within fair value hierarchy	100,708,604	30,486,681	662,687	-	131,857,972
Investments measured at net asset value:					
Donor advised	-	-	-	3,090,075	3,090,075
Total investments measured at net asset value	-	-	-	3,090,075	3,090,075
Total investments	<u>\$ 100,708,604</u>	<u>\$ 30,486,681</u>	<u>\$ 662,687</u>	<u>\$ 3,090,075</u>	<u>\$ 134,948,047</u>

Fair Value Measurements					
12/31/2023					
	(Level 1)	(Level 2)	(Level 3)	NAV	Total
Donor Advised	\$ 2,537,516	\$ 32,547,233	\$ 852,897	\$ -	\$ 35,937,646
Donor Designated	6,544,857	-	-	-	6,544,857
Non-profit Funds	57,106,608	-	-	-	57,106,608
Field of Interest	14,071,542	-	-	-	14,071,542
Scholarship	14,352,717	-	-	-	14,352,717
Unrestricted Charitable	790,115	-	-	-	790,115
Project	41,206	-	-	-	41,206
Other	429,929	-	-	-	429,929
Total investments within fair value hierarchy	95,874,490	32,547,233	852,897	-	129,274,620
Investments measured at net asset value:					
Donor advised	-	-	-	2,854,000	2,854,000
Total investments measured at net asset value	-	-	-	2,854,000	2,854,000
Total investments	<u>\$ 95,874,490</u>	<u>\$ 32,547,233</u>	<u>\$ 852,897</u>	<u>\$ 2,854,000</u>	<u>\$ 132,128,620</u>

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NOTE 6 – FAIR VALUE MEASUREMENTS (continued):

As of December 31, 2024 and 2023, respectively, investments by type of fund are as follows:

Fair Value Measurements					
12/31/2024					
	(Level 1)	(Level 2)	(Level 3)	NAV	Total
Money Market Funds	\$ 7,013,827	\$ -	\$ -	-	\$ 7,013,827
US Treasuries & Government Agencies	15,852,271	-	-	-	15,852,271
Corporate Bonds and Notes	5,946,918	424,657	-	-	6,371,575
Exchange-Traded Funds	44,997,147	-	-	-	44,997,147
Mutual Funds	-	22,551,480	-	-	22,551,480
Common Stock	26,888,995	-	-	-	26,888,995
Preferred Stock	-	-	-	-	-
Investment in Mineral Interests	-	-	662,687	-	662,687
Privately Held Stock	9,446	7,510,544	-	-	7,519,990
Total investments within fair value hierarchy	<u>100,708,604</u>	<u>30,486,681</u>	<u>662,687</u>	<u>-</u>	<u>131,857,972</u>
Investments measured at net asset value:					
Alternative investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,090,075</u>	<u>3,090,075</u>
Total investments measured at net asset value	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,090,075</u>	<u>3,090,075</u>
Total investments	<u>\$ 100,708,604</u>	<u>\$ 30,486,681</u>	<u>\$ 662,687</u>	<u>\$ 3,090,075</u>	<u>\$ 134,948,047</u>

Fair Value Measurements					
12/31/2023					
	(Level 1)	(Level 2)	(Level 3)	NAV	Total
Money Market Funds	\$ 5,568,097	\$ -	\$ -	-	\$ 5,568,097
US Treasuries & Government Agencies	3,284,263	-	-	-	3,284,263
Corporate Bonds and Notes	13,932,539	887,249	-	-	14,819,788
Exchange-Traded Funds	45,973,331	-	-	-	45,973,331
Mutual Funds	-	25,892,604	-	-	25,892,604
Common Stock	27,033,242	-	-	-	27,033,242
Preferred Stock	73,572	-	-	-	73,572
Investment in Mineral Interests	-	-	852,897	-	852,897
Privately Held Stock	9,446	5,767,380	-	-	5,776,826
Total investments within fair value hierarchy	<u>95,874,490</u>	<u>32,547,233</u>	<u>852,897</u>	<u>-</u>	<u>129,274,620</u>
Investments measured at net asset value:					
Alternative investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,854,000</u>	<u>2,854,000</u>
Total investments measured at net asset value	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,854,000</u>	<u>2,854,000</u>
Total investments	<u>\$ 95,874,490</u>	<u>\$ 32,547,233</u>	<u>\$ 852,897</u>	<u>\$ 2,854,000</u>	<u>\$ 132,128,620</u>

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NOTE 6 – FAIR VALUE MEASUREMENTS (continued):

During the year ended December 31, 2024, favorable market conditions were the primary driver in the \$2.8 million increase when comparing the change in the fair value measurement of investments from 2023 to 2024.

Investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	2024	2023
Beginning balance	\$ 852,897	\$ 394,969
Gains (losses) realized and unrealized	(190,210)	457,928
Ending balance	<u>\$ 662,687</u>	<u>\$ 852,897</u>

NOTE 7 – 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 \$17,965 and \$18,767 for 2024 and 2023, respectively.

NOTE 8 – 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, 2024 and 2023, were \$26,680 and \$28,512, respectively.

NOTE 9 – 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 operations are funded primarily by administrative fees charged based upon the assets under management. Operating costs are budgeted and monitored monthly and are not significantly affected by the unpredictability and volatility of contributions, grants and investment performance.

EAST TEXAS COMMUNITIES FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 – LIQUIDITY AND AVAILABILITY OF RESOURCES (continued):

The Foundation's financial assets available within one year of December 31, 2024 and 2023, respectively, for general expenditure are as follows:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 2,872,585	\$ 1,173,152
Pledges receivable, current	20,392	30,832
Investments	134,948,047	132,128,620
Total financial assets available within one year	137,841,024	133,332,604
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with time or purpose restrictions	(131,725,431)	(130,908,576)
Total financial assets available to management for general expenditure within one year	<u>\$ 6,115,593</u>	<u>\$ 2,424,028</u>

NOTE 10 – 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.

As of December 31, 2024 and 2023, respectively, underwater endowments are as follows:

	<u>2024</u>	<u>2023</u>
Aggregate original gift amount	\$ 60,349	\$ 60,349
Aggregate fair value of funds	(54,349)	(51,762)
Total underwater endowments	<u>\$ 6,000</u>	<u>\$ 8,587</u>

EAST TEXAS COMMUNITIES FOUNDATION, INC.
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NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 12, 2025, the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.