

**CAMP FIRE FIRST TEXAS
AND AFFILIATE**

AUDITED COMBINED FINANCIAL STATEMENTS

Year Ended December 31, 2017



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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of Camp Fire
First Texas and the Board of Directors
of El Tesoro Foundation
Fort Worth, Texas

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of and Affiliate (the “”), which comprise the combined statements of financial position as of December 31, 2017, and the related combined statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the combined financial statements.

Management’s Responsibility for the Combined 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 combined 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of and Affiliate as of December 31, 2017, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the 's 2016 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated June 22, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended , is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Rylander, Clay + Opetz, LLP

June 26, 2018



CAMP FIRE FIRST TEXAS AND AFFILIATE

COMBINED STATEMENTS OF FINANCIAL POSITION

December 31, 2017, with Comparative Total for 2016

	Camp Fire First Texas	El Tesoro Foundation	Eliminations	Combined Total	
				2017	2016
ASSETS					
Cash and cash equivalents	\$ 579,692	\$ 53,596	\$ -	\$ 633,288	\$ 409,227
Accounts receivable	52,572	-	-	52,572	63,104
Contributions receivable	129,633	-	-	129,633	138,967
Account receivable - affiliate	878,921	-	(878,921)	-	-
Inventory of merchandise					
held for resale	66,294	-	-	66,294	65,173
Prepaid expenses	46,971	-	-	46,971	36,397
Assets restricted for investment					
in property and equipment	401,233	-	-	401,233	543,600
Property and equipment, net	580,030	9,880,620	-	10,460,650	10,805,661
Investments	-	5,752,646	-	5,752,646	5,203,764
Investments permanently restricted for endowment	-	156,788	-	156,788	148,196
Total assets	\$ 2,735,346	\$ 15,843,650	\$ (878,921)	\$ 17,700,075	\$ 17,414,089
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	\$ 77,889	\$ -	\$ -	\$ 77,889	\$ 103,358
Accrued liabilities	134,862	-	-	134,862	153,091
Line of credit	1,366,608	-	-	1,366,608	1,080,500
Deferred revenue	93,291	-	-	93,291	53,223
Account payable - affiliate	-	878,921	(878,921)	-	-
Annuity payable	-	-	-	-	12,804
Total liabilities	1,672,650	878,921	(878,921)	1,672,650	1,402,976
Net Assets					
Unrestricted					
Undesignated	(269,447)	9,880,620	-	9,611,173	9,754,614
Designated	500,000	4,752,890	-	5,252,890	5,101,091
	230,553	14,633,510	-	14,864,063	14,855,705
Temporarily restricted	832,143	174,431	-	1,006,574	1,007,212
Permanently restricted	-	156,788	-	156,788	148,196
Total net assets	1,062,696	14,964,729	-	16,027,425	16,011,113
Total liabilities and net assets	\$ 2,735,346	\$ 15,843,650	\$ (878,921)	\$ 17,700,075	\$ 17,414,089

See notes to combined financial statements.



CAMP FIRE FIRST TEXAS AND AFFILIATE

COMBINED STATEMENTS OF ACTIVITIES

Year Ended December 31, 2017, with
Comparative Total for 2016

	Camp Fire First Texas		Total
	Unrestricted	Temporarily Restricted	
Revenues and other support:			
Contributions	\$ 1,188,874	\$ 430,910	\$ 1,619,784
Capital campaign contributions	-	220,399	220,399
Government grants	132,025	-	132,025
Corporate contracts	201,792	-	201,792
United Way allocations	21,500	-	21,500
Program service fees	2,275,377	-	2,275,377
McFadden Fund	179,648	-	179,648
An Artists' Christmas, net of costs of \$135,937	85,075	-	85,075
Other special events, net of costs of \$18,406	75,984	-	75,984
Merchandise sales, net of costs of \$43,182	14,946	-	14,946
Net unrealized and realized gains	-	-	-
Investment income	12,226	-	12,226
Mineral income	-	-	-
Other	131,516	-	131,516
Transfers from Council			
Net assets released from restrictions:			
Satisfaction of program restrictions	943,322	(165,516)	777,806
Satisfaction of time restrictions	138,967	(138,967)	-
Satisfaction of property acquisition restrictions	362,766	(362,766)	-
Total revenues and other support	5,764,018	(15,940)	5,748,078
Expenses:			
Program services:			
Youth development	1,025,199	-	1,025,199
Outdoor	1,737,272	-	1,737,272
Professional Growth	2,048,981	-	2,048,981
Total program services	4,811,452	-	4,811,452
Supporting services:			
Management and general	652,187	-	652,187
Development and marketing	241,706	-	241,706
Capital campaign	72,731	-	72,731
Total supporting services	966,624	-	966,624
Total expenses	5,778,076	-	5,778,076
Change in net assets	(14,058)	(15,940)	(29,998)
Net assets at beginning of year	10,254,614	848,083	11,102,697
Transfer of property and equipment (see Note 4)	(10,010,003)	-	(10,010,003)
Net assets at end of year	\$ 230,553	\$ 832,143	\$ 1,062,696

See notes to combined financial statements.



El Tesoro Foundation					Combined Total	
Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Eliminations	2017	2016
\$ -	\$ -	\$ 8,592	\$ 8,592	\$ -	\$ 1,628,376	\$ 1,595,603
-	-	-	-	-	220,399	2,490
-	-	-	-	-	132,025	295,526
-	-	-	-	-	201,792	177,569
-	-	-	-	-	21,500	21,328
-	-	-	-	-	2,275,377	2,171,849
-	-	-	-	-	179,648	175,436
-	-	-	-	-	85,075	162,301
-	-	-	-	-	75,984	103,403
-	-	-	-	-	14,946	11,356
743,033	23,132	-	766,165	-	766,165	483,547
81,728	2,544	-	84,272	-	96,498	102,133
157,398	-	-	157,398	-	157,398	88,505
12	-	-	12	-	131,528	156,099
(767,432)	(10,374)	-	(777,806)	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
214,739	15,302	8,592	238,633	-	5,986,711	5,547,145
-	-	-	-	-	1,025,199	896,849
-	-	-	-	-	1,737,272	1,454,961
-	-	-	-	-	2,048,981	2,699,975
-	-	-	-	-	4,811,452	5,051,785
192,323	-	-	192,323	-	844,510	877,856
-	-	-	-	-	241,706	297,799
-	-	-	-	-	72,731	52,464
192,323	-	-	192,323	-	1,158,947	1,228,119
192,323	-	-	192,323	-	5,970,399	6,279,904
22,416	15,302	8,592	46,310	-	16,312	(732,759)
4,601,091	159,129	148,196	4,908,416	-	16,011,113	16,743,872
10,010,003	-	-	10,010,003	-	-	-
<u>\$ 14,633,510</u>	<u>\$ 174,431</u>	<u>\$ 156,788</u>	<u>\$ 14,964,729</u>	<u>\$ -</u>	<u>\$ 16,027,425</u>	<u>\$ 16,011,113</u>



CAMP FIRE FIRST TEXAS AND AFFILIATE

COMBINED STATEMENTS OF CASH FLOWS Year Ended December 31, 2017, with Comparative Total for 2016

	Camp Fire First Texas	El Tesoro Foundation	Combined Total	
			2017	2016
Cash Flows from Operating Activities				
Change in net assets	\$ (29,998)	\$ 46,310	\$ 16,312	\$ (732,759)
Adjustments to reconcile change in net assets to net cash used by operating activities:				
Depreciation	347,005	129,383	476,388	482,426
Net unrealized and realized (gains) losses	-	(766,165)	(766,165)	(483,547)
Due to/from affiliate	(366,004)	366,004	-	-
Bad debt	19,667	-	19,667	25,000
Annuity expense	-	3,126	3,126	721
(Increase) decrease in operating assets:				
Accounts receivable	7,676	2,856	10,532	91,310
Contributions receivable	(10,333)	-	(10,333)	(2,456)
Inventory of merchandise held for resale	(1,121)	-	(1,121)	(2,041)
Prepaid expenses	(10,574)	-	(10,574)	(5,667)
Increase (decrease) in operating liabilities:				
Accounts payable	(25,469)	-	(25,469)	(23,584)
Accrued liabilities	(18,229)	-	(18,229)	18,532
Deferred revenue	40,068	-	40,068	14,333
Contributions restricted for property and equipment	(220,399)	-	(220,399)	(2,490)
Net cash used by operating activities	(267,711)	(218,486)	(486,197)	(620,222)
Cash Flows from Investing Activities				
Purchase of property and equipment	(131,377)	-	(131,377)	(1,178,468)
Purchase of investments	-	(1,773,066)	(1,773,066)	(1,217,636)
Proceeds from sale of investments	-	1,981,757	1,981,757	2,009,649
Net cash provided (used) by investing activities	(131,377)	208,691	77,314	(386,455)
Cash Flows from Financing Activities				
Proceeds from line of credit	286,108	-	286,108	730,500
Proceeds from contributions restricted for property and equipment	362,766	-	362,766	205,362
Payments on annuity	-	(15,930)	(15,930)	(15,930)
Net cash provided (used) by financing activities	648,874	(15,930)	632,944	919,932
Net increase (decrease) in cash and cash equivalents	249,786	(25,725)	224,061	(86,745)
Cash and cash equivalents at beginning of year	329,906	79,321	409,227	495,972
Cash and cash equivalents at end of year	\$ 579,692	\$ 53,596	\$ 633,288	\$ 409,227
Noncash investing activities:				
Transfer of property and equipment (See Note 4)	<u>\$ (10,010,003)</u>	<u>\$ 10,010,003</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to combined financial statements.



CAMP FIRE FIRST TEXAS AND AFFILIATE

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES Year Ended December 31, 2017, with Comparative Total for 2016

	Program Services				Supporting Services				Combined Total	
	Youth Development	Outdoor Connection	Professional Growth	Total	Management and General	Development and Marketing	Capital Campaign	Total	2017	2016
Salaries	\$ 680,915	\$ 784,708	\$ 1,215,068	\$ 2,680,691	\$ 398,642	\$ 160,613	\$ -	\$ 559,255	\$ 3,239,946	\$ 3,337,458
Employee benefits	100,711	152,699	270,668	524,078	90,278	34,635	-	124,913	648,991	688,284
Professional fees/contract labor	7,557	51,735	119,382	178,674	146,266	5,212	12,498	163,976	342,650	332,325
Supplies	49,338	139,490	118,658	307,486	37,735	1,739	-	39,474	346,960	348,156
Telephone	7,022	8,211	6,037	21,270	13,768	656	-	14,424	35,694	30,142
Postage	284	4,089	4,423	8,796	1,986	1,451	-	3,437	12,233	18,186
Occupancy	62,074	147,407	99,253	308,734	17,107	-	2,600	19,707	328,441	317,226
Outside printing	15,760	3,843	11,452	31,055	384	5,111	-	5,495	36,550	46,558
Transportation	19,130	10,913	5,147	35,190	553	355	-	908	36,098	39,043
Conferences	1,709	13,642	11,355	26,706	3,870	967	-	4,837	31,543	32,269
Subscriptions	1,675	12,093	1,115	14,883	884	12,180	-	13,064	27,947	25,971
Individual assistance	-	607	6,086	6,693	-	3,034	-	3,034	9,727	14,381
Dues	1,604	5,908	6,850	14,362	4,416	1,685	-	6,101	20,463	19,973
Awards and grants to others	-	703	66,475	67,178	-	-	-	-	67,178	224,487
Equipment	812	15,136	8,198	24,146	8,432	25	2,325	10,782	34,928	53,114
Insurance	2,210	4,741	7,800	14,751	30,401	-	-	30,401	45,152	45,575
Bad debt	-	-	-	-	-	-	19,667	19,667	19,667	25,000
Miscellaneous	20,598	36,848	28,582	86,028	20,475	491	35,641	56,607	142,635	131,257
Charter fees	4,250	5,750	15,000	25,000	42,208	-	-	42,208	67,208	68,073
Total expenses before depreciation	975,649	1,398,523	2,001,549	4,375,721	817,405	228,154	72,731	1,118,290	5,494,011	5,797,478
Depreciation	49,550	338,749	47,432	435,731	27,105	13,552	-	40,657	476,388	482,426
Total - 2017	\$ 1,025,199	\$ 1,737,272	\$ 2,048,981	\$ 4,811,452	\$ 844,510	\$ 241,706	\$ 72,731	\$ 1,158,947	\$ 5,970,399	
Total - 2016	\$ 896,849	\$ 1,454,961	\$ 2,699,975	\$ 5,051,785	\$ 877,856	\$ 297,799	\$ 52,464	\$ 1,228,119		\$ 6,279,904

See notes to combined financial statements.



CAMP FIRE FIRST TEXAS AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The accompanying combined financial statements include the accounts of (the “Council”) and El Tesoro Foundation (the “Foundation”), both of which are under common control. Significant intercompany transactions and balances have been eliminated in the combination. The Council is organized to promote, supervise, and administer the programs of Camp Fire, a national youth development agency. The Council provides programs for children, youth, and adults primarily in its chartered territory of Tarrant County and the surrounding five counties, including after school services, a child development center, truancy prevention programs for at-risk students, resident and day camps, outdoor education, family camping, school readiness programs, and professional training for child care providers. The Council’s programs focus on development of the whole child, service learning, and respect for the environment.

The Foundation’s purpose is to hold, manage and administer assets, including a permanent endowment, for the benefit of the Council in order to help ensure the Council’s continued financial well-being and ability to carry out its mission.

Management Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that are used.

Cash Equivalents

The Council and Foundation consider all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable represent government grant receivables at December 31, 2017. Based on past experience and analysis of current receivable collectability, no allowance for doubtful accounts is considered necessary.

Inventory

Inventory of merchandise held for resale is carried at the lower of cost (determined using the first-in, first-out method) or market.

Property and Equipment

Property and equipment that are purchased are recorded at cost and depreciated over estimated useful lives using the straight-line method. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Absent donor stipulations regarding how long those donated assets must be maintained, the Council reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Council reclassifies temporarily restricted net assets to unrestricted net assets at that time.



CAMP FIRE FIRST TEXAS AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and improvements	20 – 40 years
Furniture and equipment	5 – 10 years
Vehicles	5 – 10 years

Investments

Investments are stated at fair value. Realized and unrealized gains and losses are reflected in the combined statement of activities. The calculation of realized gains and losses on investment sales are based upon the weighted average cost of such investments.

Impairment of Long-Lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Deferred Revenue

Deferred revenue represents cash received in advance for program services to be performed in 2018.

Revenue Recognition

Program service fees and grants are recognized as revenue when earned. Contributions are recognized as they are received. Unconditional pledges are recognized when the Council is informed of the donors' intent. Mineral income is recorded when received.

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Services

The Council receives donated services for its various programs from volunteers. No amounts have been reflected in the accompanying combined financial statements for donated services because the criteria for recognition under generally accepted accounting principles has not been satisfied.

Functional Allocation of Expenses

The costs of providing the programs and activities of the Council have been summarized on a functional basis in the combined statement of activities. Accordingly, certain costs have been allocated among program services and supporting services.



CAMP FIRE FIRST TEXAS AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prior-Year Comparative Information

The combined financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Council's and Foundation's combined financial statements for the year ended from which the summarized information is derived.

Income Taxes

The Council and the Foundation are not-for-profit organizations that are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and are not considered private foundations.

Subsequent Events

Management evaluated subsequent events through June 26, 2018, which is the date the combined financial statements were available to be issued.

NOTE 2. CONTRIBUTIONS RECEIVABLE

At December 31, 2017, the Council has contributions receivable of \$129,633 and \$138,967, respectively, restricted for program services or future operating needs. No allowance for doubtful contributions receivable is considered necessary at December 31, 2017.

The contributions receivable are scheduled to be received as follows:

Due in one year	\$ 128,033
Due in two to five years	1,600
	<u>\$ 129,633</u>

NOTE 3. ASSETS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT

In November of 2008, the Council launched a capital campaign for improvements at Camp El Tesoro. Assets restricted for this purpose consist of pledges receivable of \$401,233 and \$543,600 at December 31, 2017, respectively.

The pledges are scheduled to be received as follows:

Due in one year	\$ 181,900
Due in two to five years	244,000
Allowance for uncollectible pledges	(24,667)
	<u>\$ 401,233</u>

In addition, management has determined that due to the short-term nature of the pledges and the low rate of inflation, discounting the pledges to present value is not considered necessary. Based upon collection history and review of individual pledges, management recorded an allowance of \$24,667 and \$5,000 at December 31, 2017 and 2016, respectively.



CAMP FIRE FIRST TEXAS AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 4. PROPERTY AND EQUIPMENT

On August 31, 2017, the Council transferred land, buildings and improvements to the Foundation (see Note 12). At the date of the transfer, the value, net of accumulated depreciation, of the land, buildings and improvements was \$10,010,003. At December 31, 2017, property and equipment are comprised of the following:

	2017	
	Council	Foundation
Land	\$ -	\$ 898,884
Building and improvements	190,562	14,554,928
Furniture and equipment	1,546,579	-
Vehicles	100,498	-
	<u>1,837,639</u>	<u>15,453,812</u>
Less accumulated depreciation	<u>(1,257,609)</u>	<u>(5,573,192)</u>
	<u>\$ 580,030</u>	<u>\$ 9,880,620</u>

	2016	
	Council	Foundation
Land	\$ 898,884	\$ -
Building and improvements	14,701,633	-
Furniture and equipment	1,564,376	-
Vehicles	100,498	-
	<u>17,265,391</u>	<u>-</u>
Less accumulated depreciation	<u>(6,459,730)</u>	<u>-</u>
	<u>\$ 10,805,661</u>	<u>\$ -</u>

NOTE 5. ANNUITY PAYABLE

During 2009, the Foundation entered into a charitable gift annuity in which they received \$250,000. Based on actuarial calculations, a fixed sum is to be paid to the donors over their remaining lives. Using a discount rate of 3.4%, a contribution of \$136,142 was recognized in 2009. Payments totaling \$15,930 were made during both 2017 and 2016. The estimated remaining liability at was \$12,804. There was no estimated remaining liability at December 31, 2017.

NOTE 6. LINES OF CREDIT

At December 31, 2017, the Council has a \$2,000,000 line of credit with a financial institution. The line bears interest at a rate equal to LIBOR plus 1.5% (3.6% at December 31, 2017). The line is collateralized by investments held by the Foundation and matures January 31, 2019. The line of credit is accessed only for cash flow purposes against pledges made to the capital campaign for Camp El Tesoro as well as general cash flow purposes. The line has an outstanding balance of \$1,366,608 and \$1,080,500 at December 31, 2017, respectively. Interest expense on the credit line was approximately \$46,040 and \$32,446 for the years ended December 31, 2017, respectively.



CAMP FIRE FIRST TEXAS AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 7. DESIGNATED NET ASSETS

During 2015, the Foundation made a contribution of \$500,000 to the Council for improvements at Camp El Tesoro. As of December 31, 2017, the amount was not yet paid to the Council, and is reflected as designated net assets of the Council. The amount is also reflected as a receivable and payable on the combined statement of financial position. See Note 10 for the designated net assets of the Foundation.

NOTE 8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of the Council at December 31, 2017 relate to funds contributed to the Council and restricted for future program service expenses and funds restricted to investment in property and equipment as follows:

	<u>2017</u>	<u>2016</u>
Program service expenses	\$ 301,277	\$ 165,516
Future operating needs	129,633	138,967
Restricted for capital campaign, net of allowance	401,233	543,600
	<u>\$ 832,143</u>	<u>\$ 848,083</u>

Temporarily restricted net assets of the Foundation are described in Note 10.

NOTE 9. EMPLOYEE BENEFIT PLAN

The Council has established for its employees a defined contribution plan which covers substantially all permanent employees after they have met certain eligibility requirements. Contributions to the plan by the Council are based upon 3% of qualified employee compensation plus a matching contribution up to 4% of qualified employee compensation as established and approved by the Board. Contributions to the plan are approximately \$134,000 and \$148,000 in 2017 and 2016, respectively.

NOTE 10. ENDOWMENT FUNDS

The Council's endowment fund, established as a Foundation in 1984, consists of cash and cash equivalents, mutual funds, fixed income, equities. The Foundation assets are managed by a Board of Directors which is appointed by the Council's Board. Its purpose is to create, hold, and administer a permanent endowment for the Council in order to help ensure its continued financial well-being and ability to carry out its purposes as stated in its articles of formation and bylaws. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.



CAMP FIRE FIRST TEXAS AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 10. ENDOWMENT FUNDS (Continued)

Interpretation of Relevant Law

The Board of Directors (the “Directors”) of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) of the State of Texas to require the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. Therefore, the Foundation will classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Composition and Activity of Endowment Funds

Endowment net asset composition by type of funds at December 31, 2017, follows:

	2017			
	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 174,431	\$ 156,788	\$ 331,219
Board designated	4,752,890	-	-	4,752,890
Balance at end of year	<u>\$ 4,752,890</u>	<u>\$ 174,431</u>	<u>\$ 156,788</u>	<u>\$ 5,084,109</u>

	2016			
	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 159,129	\$ 148,196	\$ 307,325
Board designated	4,601,091	-	-	4,601,091
Balance at end of year	<u>\$ 4,601,091</u>	<u>\$ 159,129</u>	<u>\$ 148,196</u>	<u>\$ 4,908,416</u>



CAMP FIRE FIRST TEXAS AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 10. ENDOWMENT FUNDS (Continued)

The changes in the endowment net assets for the years ended December 31, 2017, follow:

	2017			
	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	\$ 4,601,091	\$ 159,129	\$ 148,196	\$ 4,908,416
Contributions	-	-	8,592	8,592
Mineral income	157,398	-	-	157,398
Unrealized/realized gain	743,033	23,132	-	766,165
Interest	11	-	-	11
Dividends	81,717	2,544	-	84,261
Miscellaneous	12	-	-	12
Expenses	(62,940)	-	-	(62,940)
Transfers to Council	(767,432)	(10,374)	-	(777,806)
Balance at end of year	<u>\$ 4,752,890</u>	<u>\$ 174,431</u>	<u>\$ 156,788</u>	<u>\$ 5,084,109</u>

	2016			
	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	\$ 4,880,782	\$ 155,237	\$ 126,074	\$ 5,162,093
Contributions	-	-	22,122	22,122
Mineral income	88,505	-	-	88,505
Unrealized/realized gain	471,737	11,810	-	483,547
Dividends	85,320	2,136	-	87,456
Expenses	(87,704)	(1,229)	-	(88,933)
Transfers to Council	(837,549)	(8,825)	-	(846,374)
Balance at end of year	<u>\$ 4,601,091</u>	<u>\$ 159,129</u>	<u>\$ 148,196</u>	<u>\$ 4,908,416</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. The Foundation shall be fully empowered to accumulate income to replenish any decline in the value of its assets. The Foundation is specifically directed to maintain the objective of retaining the value of its assets at not less than \$1,000,000. There were no such deficiencies as of December 31, 2017.

Return Objectives and Risk Parameters

The objective of the investment program is to preserve and enhance the assets of the Foundation's investment portfolio through capital appreciation and reinvestment of income. The purpose of the Foundation is to provide long-term funding resources for the Council, with emphasis on the long-term future. The Directors recognize that this objective can be met over time only if the purchasing power of the portfolio is increased on a real dollar (inflation-adjusted) basis.



CAMP FIRE FIRST TEXAS AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 10. ENDOWMENT FUNDS (Continued)

Strategies Employed for Achieving Objectives

The total real rate of return goal of the portfolio is a premium of three percent (3.0%) over the rate of inflation as measured by the Consumer Price Index over a five-year time horizon. It is also expected that the portfolio's return will compare favorably with the portfolio benchmark over a full market cycle.

In order to meet the objective of capital growth, the Foundation's Board of Directors has established the following guidelines with respect to the proportions of equities and fixed income securities held in the portfolio:

1. The maximum for equity exposure is seventy-five percent (75%) of the portfolio at market value. The minimum equity exposure will be 50% at market value.
2. The goal for fixed income exposure (defined as bonds and/or other fixed interest vehicles with maturities of one year or longer) is twenty percent (20%) of the portfolio at market value. The total invested in bonds may exceed this percentage based on the investment manager's outlook.
3. The goal for cash is 5% of the portfolio at market value.

The Directors recognize that there may be times when the investment manager elects to hold more in cash equivalents, based on the near-term market outlook. The manager has the discretion to do so within the context of this long-term allocation policy.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Other than the annual distribution and mineral income distribution as noted below, distributions of the board designated funds of the Foundation shall be made to the Council only under extreme conditions and if: (a) all reserve funds of the Council are exhausted; (b) eighty percent (80%) of the entire Board of Directors of the Council authorize the Council to make a written request for the distribution of Foundation assets; and (c) the Board of Directors of the Foundation approve the request for distribution, but should the first two conditions occur, the Board of Directors shall not act unreasonably in refusing to distribute Foundation assets, but shall only act to ensure that the request by the Council is in good faith.

On an annual basis, the Foundation shall make available to the Council from board designated funds an amount of cash or other assets of a value not in excess of five percent (5%) of the three (3) year rolling average of the market values of the Foundation assets computed as of the last day of each calendar year. This policy will ensure that the movement of the market value of the Foundation assets and the expenditure of Foundation income are correlated. By using a three (3) year rolling average, the operating budget of the Council will be cushioned from the impacts of sharp changes in the market value of the assets in the Foundation which may occur within a single year. The distribution policy is based on the assumption that, over the long run, the total inflation adjusted real rate of return on the assets, including current yield and appreciation, will be equal to or greater than five percent (5%).

The Foundation retains 30% of any bonus and production income from mineral interests and makes available to the Council the remaining 70% upon request of the Council Board and approval by the Foundation Board. Should the Council not request any or all of the 70% in any year, it will have two additional years in which to request a distribution.



CAMP FIRE FIRST TEXAS AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 10. ENDOWMENT FUNDS (Continued)

Earnings from permanently restricted assets will be distributed to the Council in accordance with the donor's instructions at the time of the donor's gift to the Foundation. In the absence of such instructions, earnings from permanently restricted assets shall be distributed annually to the Council as a part of the total annual distribution described above.

Designated net assets of the Foundation at December 31, 2017, follow:

	<u>2017</u>	<u>2016</u>
Current year designation for operating	\$ 290,597	\$ 299,833
Designated for Council, upon request	169,960	126,133
Designated for long-term investments	<u>4,292,333</u>	<u>4,175,125</u>
Balance at end of year	<u>\$ 4,752,890</u>	<u>\$ 4,601,091</u>

Temporarily restricted net assets of the Foundation at December 31, 2017, consist of the following:

	<u>2017</u>	<u>2016</u>
Charitable gift annuity restricted for Camp El Tesoro (see Note 5)	\$ 136,142	\$ 136,142
Unappropriated endowment earnings	<u>38,289</u>	<u>22,987</u>
Balance at end of year	<u>\$ 174,431</u>	<u>\$ 159,129</u>

NOTE 11. FAIR VALUE OF ASSETS AND LIABILITIES

For assets and liabilities measured at fair value on a recurring basis, the Fair Value Measurements and Disclosures Topic of the Accounting Standards Codification establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. This topic describes three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.



CAMP FIRE FIRST TEXAS AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 11. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying combined statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include publicly traded stocks, government and corporate bonds, mutual funds, certificates of deposit, and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

At December 31, 2017 and 2016, investments, all of which are classified as Level 1, consist of the following:

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	\$ 446,835	\$ 446,835	\$ 15,270	\$ 15,270
US fixed income	1,284,874	1,275,453	1,258,809	1,250,514
US large cap equity	4,123,257	2,099,317	4,029,672	2,417,845
US small/mid cap equity	54,468	63,229	48,209	55,820
	<u>\$ 5,909,434</u>	<u>\$ 3,884,834</u>	<u>\$ 5,351,960</u>	<u>\$ 3,739,449</u>

Other Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to their short-term nature. The carrying amount of contributions receivable approximates fair value due to cash flows based upon net present value. The carrying amount of the annuity payable approximates fair value due to the discounted cash flows based upon actuarial data.

NOTE 12. EL TESORO FOUNDATION

On May 18, 2017 the Foundation's voting members approved the amended and restated certificate of formation which changed the name of the Foundation from Camp Fire First Texas Foundation to El Tesoro Foundation. The amended and restated certificate of formation was filed with the Office of the Secretary of State of Texas on July 31, 2017.

