

**AUSTIN COMMUNITY FOUNDATION
FOR THE CAPITAL AREA, INC.**

Consolidated Financial Statements

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

To the Board of Governors
of Austin Community Foundation for the Capital Area, Inc.:

We have audited the accompanying consolidated statements of financial position of Austin Community Foundation for the Capital Area, Inc. (the "Foundation") and its affiliate as of December 31, 2006 and 2005, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation and its affiliate as of December 31, 2006 and 2005, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

July 12, 2007
Austin, Texas

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Consolidated Statements of Financial Position

As of December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents (note 2)	\$ 13,329,284	\$ 10,877,755
Investments, at fair value		
Marketable securities (note 3)	68,683,917	60,321,205
Real estate investments (note 4)	6,252,458	5,781,643
Other (note 4)	1,675,243	1,615,523
Notes receivable, net	664,148	791,988
Property and equipment, net	31,038	4,185
Total assets	<u>\$ 90,636,088</u>	<u>\$ 79,392,299</u>
Liabilities and Net Assets		
Accounts and grants payable	\$ 867,681	\$ 315,012
Funds held for others (note 8)	397,853	302,778
Funds held for others - Agency (note 9)	2,770,240	1,667,661
Total liabilities	<u>4,035,774</u>	<u>2,285,451</u>
Net assets		
Unrestricted	29,543,241	27,691,466
Temporarily restricted (note 6)	15,782,312	12,867,683
Permanently restricted (note 7)	41,274,761	36,547,699
Total net assets	<u>86,600,314</u>	<u>77,106,848</u>
Total liabilities and net assets	<u>\$ 90,636,088</u>	<u>\$ 79,392,299</u>

See accompanying notes and independent auditors' report.

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Consolidated Statement of Activities

Year Ended December 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Gains				
Contributions	\$ 7,684,497	\$ 8,718,369	\$ 4,826,260	\$ 21,229,126
Investment income	686,315	1,433,099	-	2,119,414
Other income, net	49,951	44,509	-	94,460
Appreciation on investments, net	230,410	3,334,447	51,881	3,616,738
Net assets released from restrictions	<u>10,766,874</u>	<u>(10,615,795)</u>	<u>(151,079)</u>	<u>-</u>
Total revenues and gains	<u>19,418,047</u>	<u>2,914,629</u>	<u>4,727,062</u>	<u>27,059,738</u>
Expenses and Losses				
Program services:				
Community grant funding	12,324,845	-	-	12,324,845
Special projects funding and program costs	4,637,967	-	-	4,637,967
Total program services	<u>16,962,812</u>	<u>-</u>	<u>-</u>	<u>16,962,812</u>
Supporting services:				
Management and general	518,550	-	-	518,550
Fundraising	84,910	-	-	84,910
Total supporting services	<u>603,460</u>	<u>-</u>	<u>-</u>	<u>603,460</u>
Total expenses and losses	<u>17,566,272</u>	<u>-</u>	<u>-</u>	<u>17,566,272</u>
Changes in net assets	1,851,775	2,914,629	4,727,062	9,493,466
Net assets at beginning of year	<u>27,691,466</u>	<u>12,867,683</u>	<u>36,547,699</u>	<u>77,106,848</u>
Net assets at end of year	<u>\$ 29,543,241</u>	<u>\$ 15,782,312</u>	<u>\$ 41,274,761</u>	<u>\$ 86,600,314</u>

See accompanying notes and independent auditors' report.

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Consolidated Statement of Activities

Year Ended December 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Gains				
Contributions	\$ 5,764,496	\$ 7,735,426	\$ 1,257,135	\$ 14,757,057
Investment income	988,074	1,199,309	-	2,187,383
Other income (loss), net	(215,782)	526,476	-	310,694
Appreciation on investments, net	(424,758)	553,721	117,210	246,173
Net assets released from restrictions	<u>2,856,739</u>	<u>(3,228,322)</u>	<u>371,583</u>	<u>-</u>
Total revenues and gains	<u>8,968,769</u>	<u>6,786,610</u>	<u>1,745,928</u>	<u>17,501,307</u>
Expenses and Losses				
Program services:				
Community grant funding	18,333,860	-	-	18,333,860
Special projects funding and program costs	<u>2,414,657</u>	<u>-</u>	<u>-</u>	<u>2,414,657</u>
Total program services	<u>20,748,517</u>	<u>-</u>	<u>-</u>	<u>20,748,517</u>
Supporting services:				
Management and general	366,187	-	-	366,187
Fundraising	<u>69,392</u>	<u>-</u>	<u>-</u>	<u>69,392</u>
Total supporting services	<u>435,579</u>	<u>-</u>	<u>-</u>	<u>435,579</u>
Total expenses and losses	<u>21,184,096</u>	<u>-</u>	<u>-</u>	<u>21,184,096</u>
Changes in net assets	(12,215,327)	6,786,610	1,745,928	(3,682,789)
Net assets at beginning of year	<u>39,906,793</u>	<u>6,081,073</u>	<u>34,801,771</u>	<u>80,789,637</u>
Net assets at end of year	<u>\$ 27,691,466</u>	<u>\$ 12,867,683</u>	<u>\$ 36,547,699</u>	<u>\$ 77,106,848</u>

See accompanying notes and independent auditors' report.

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Consolidated Statements of Cash Flows
Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 9,493,456	\$ (3,682,789)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operations		
Depreciation	2,202	3,500
Non-cash contribution	(1,740,724)	-
Appreciation on investments	(3,616,738)	(246,173)
(Increase) decrease in operating assets		
Accounts receivable	127,840	507,892
Other assets	-	43,007
Increase (decrease) in operating liabilities		
Accounts payable and grants payable	552,669	163,688
Funds held for others	95,075	(6,379)
Funds held for others - agencies	1,102,579	391,363
Net cash (used in) provided by operating activities	<u>6,016,359</u>	<u>(2,825,891)</u>
Cash flows from investing activities		
Purchase of fixed assets	(29,055)	-
Purchase of investments	(3,535,775)	(6,466,357)
Proceeds from sale of investments	-	6,043,989
Net cash used in investing activities	<u>(3,564,830)</u>	<u>(422,368)</u>
Net increase (decrease) in cash and cash equivalents	2,451,529	(3,248,259)
Cash and cash equivalents at beginning of year	10,877,755	14,126,014
Cash and cash equivalents at end of year	<u>\$ 13,329,284</u>	<u>\$ 10,877,755</u>
Non-cash investing activities:		
Land contributed	<u>\$ 1,740,724</u>	<u>\$ -</u>

See accompanying notes and independent auditors' report.

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

(1) Organization and Summary of Significant Accounting Policies

Organization

Austin Community Foundation for the Capital Area, Inc. (the "Foundation") is a Texas non-profit corporation chartered in 1977. The Foundation's primary mission is to receive gifts, bequests, and donations to be administered in charitable, scientific, literary, educational, social, and public welfare activities for the benefit of the Capital Area community.

The Foundation is exempt from federal income tax under the Internal Revenue Code Section 501 (c) (3) for income related to its exempt purpose. The Foundation is classified by the Internal Revenue Service as an organization other than a private foundation.

The Foundation manages more than 500 charitable funds, established by individual donors, corporations and non-profit agencies. The Foundation invests these funds for growth so that they can flow back into the community to support a wide range of charitable efforts, including grants and scholarships. In addition, the Foundation receives general membership and memorial contributions, which we put into an unrestricted fund.

The Foundation's grants, whether from specific charitable funds or from the general fund, support health, human services, arts and culture, the environment, community development and community service, education and training, recreation, and animal-related services.

The Austin Community Foundation has a spectrum of fund types to help donors meet their philanthropic goals.

Summary of Significant Accounting Policies

- (a) Basis of Presentation** – The financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. The consolidated financial statements include the accounts of the Foundation and its affiliate, Charitable Holdings, as of December 31, 2006 and 2005 and for the years then ended.
- (b) Basis of Accounting** – The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principals generally accepted in the United States of America. They are presented in accordance with the provisions of Statement of Financial Accounting Standards No. 117, "*Financial Statements of Not-for-Profit Organizations*".

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

(1) Organization and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

- (c) **Contributions** – The Foundation reports contributions as restricted support if the support is received with donor restrictions that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, the Foundation reports the support as unrestricted. Donated assets are recorded at their estimated fair market values at the date of receipt.

The Foundation reports contributions of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are accounted for restricted support. The Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

- (d) **Contributed Services** – During the years ended December 31, 2006 and 2005, the value of contributed services meeting the requirements for recognition in the financial statements was not material and no amounts have been recorded. Although individuals volunteer their time and perform a variety of tasks that assist the organization, these services do not meet the criteria for recognition as contributed services.
- (e) **Cash and Cash Equivalents** – The Foundation considers all highly liquid investments with an original maturity of three months or less, purchased for use primarily in operations, to be cash equivalents.
- (f) **Investments** – Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. All non cash contributions are recorded at fair value at the date of receipt. The cost of investments sold or otherwise disposed of is determined primarily by the average cost method.

Investment income is reported as an increase in unrestricted net assets unless the donor placed restrictions on the income's use. The change in fair value between years along with realized gains or losses are reflected in the statement of revenues and expenses in the year of the change. Gains and losses are reflected as increases or decreases in unrestricted net assets unless the donor or relevant laws place temporary or permanent restrictions on the gains and losses.

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

(1) Organization and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

- (g) Property and Equipment**—Furniture, equipment, software and vehicles are capitalized at cost. Property and equipment are being depreciated over estimated useful lives of five years using a straight-line method.
- (h) Consolidation** – The consolidated financial statements include the accounts of the Foundation and its affiliate, Charitable Holdings. Charitable Holdings was formed in October 1991 to assist the Foundation in carrying out the charitable purposes for which the Foundation was organized and operated. All inter-company transactions have been eliminated in consolidation.
- (i) Income Taxes** – The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Unrelated business income, of which the Foundation had no significant amounts for the years ended December 31, 2006 and 2005, is subject to federal income taxes. Accordingly, there is no provision or liability for federal income taxes in the accompanying financial statements.
- (j) 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.
- (k) Functional Expenses** – The Foundation reports its expenses on its statement of activities by function. The Foundation may allocate certain indirect operational expenses (insurance, maintenance, utilities, depreciation) between program and supporting services based on estimates made by management.
- (l) Reclassification** - Reclassification of certain prior year amounts has been made to conform to current year presentation.

(2) Cash and Cash Equivalents

Cash and cash equivalents consist of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Cash	\$ 523,633	\$ 444,714
Money market funds	12,805,651	10,433,041
Total cash and cash equivalent	\$ <u>13,329,284</u>	\$ <u>10,877,755</u>

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

(3) Marketable Securities

Marketable securities are stated at fair value based on quoted market prices and consist of the following as of December 31, 2006 and 2005:

	Fair Market Value	
	2006	2005
U.S. government securities	\$ 2,077,851	\$ 1,868,565
Fixed income debt securities	20,011,150	16,659,170
Equity securities	46,594,916	41,793,470
Total marketable securities	\$ <u>68,683,917</u>	\$ <u>60,321,205</u>

Significant fixed income debt securities included concentrations in the Vanguard GNMA fund of \$8,436,491 and the Vanguard Total Bond Market Index fund of \$8,448,955 at December 31, 2006.

Equity securities were disbursed across a range of equity mutual funds and individual common stocks. There was a significant concentration in two individual equity securities at December 31, 2006 as follows:

	Fair Market Value
	2006
Dell, Inc. common stock (127,000 shares)	\$ 3,186,430
National Instruments, Inc. common stock (136,954 shares)	3,730,627

The following schedule summarizes the investment return and its classification in the Statement of Activities for the years ended December 31, 2006 and 2005:

	2006	2005
Interest, dividends and other income	\$ 2,119,414	\$ 2,187,383
Appreciation on investments, net	3,616,738	246,173
	\$ <u>5,796,152</u>	\$ <u>2,433,556</u>

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

(4) Real Estate Investments and Other Investments

The real estate investments consist of the following at December 31, 2006 and 2005:

	<u>2006</u>		<u>2005</u>
Land	\$ 5,496,898	\$	4,598,298
Oil and gas leasehold	682,215		1,110,000
Investment in limited partnership	73,345		73,345
Total real estate investments	<u>\$ 6,252,458</u>	\$	<u>5,781,643</u>

The real estate investments are accounted for at estimated fair value. The Foundation sold an interest in land in January 2007 and received net proceeds of approximately \$1,740,000 which approximated the carrying value of the land at December 31, 2006. At December 31, 2006, the land was concentrated in 16.324 acres of land in Travis County, Texas with a fair value of \$3,640,000. Effective September 1, 2006, Charitable Holdings received the ownership interest in approximately 216 acres of land. The 216 acres is required to be maintained as a sanctuary, under the donors will, and cannot be sold by the Charitable Holdings. Under the court order allowing the Texas Parks and Wildlife Department to convey the property to Charitable Holdings, the Foundation has the responsibility to manage and maintain the property in accordance with the terms of Ms. Lucas' will. Therefore, the Foundation has an on-going obligation to perform maintenance and provide for other costs of the property. As a result of the restriction on sale and the expenses required to maintain the property the Foundation's management has determined the fair value of the land at \$1.

The other investments consist of the following at December 31, 2006 and 2005:

	<u>2006</u>		<u>2005</u>
Split interest agreements	\$ 80,868	\$	80,868
Cash value of life insurance policy	1,037,131		1,008,626
Riverboat, net of accumulated depreciation	395,500		462,000
Other	161,744		64,029
Total real estate investments	<u>\$ 1,675,243</u>	\$	<u>1,615,523</u>

(5) Property and Equipment

The following is a summary of furniture, equipment, and leasehold improvements as of December 31, 2006 and 2005:

	<u>2006</u>		<u>2005</u>
Furniture and equipment	\$ 6,268	\$	6,268
Software	4,914		4,914
Vehicle	29,055		-
	<u>40,237</u>		<u>11,182</u>
Less accumulated depreciation and amortization	<u>(9,199)</u>		<u>(6,997)</u>
	<u>\$ 31,038</u>	\$	<u>4,185</u>

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

(5) Property and Equipment (continued)

Depreciation expense was \$2,202 and \$3,500 for furniture and equipment, software and vehicle for the years ended December 31, 2006 and 2005, respectively.

(6) Temporarily Restricted Net Assets

The part of the net assets of a not-for-profit organization resulting from contributions whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled or otherwise removed by actions of the Foundation are considered temporarily restricted net assets.

At year-end, temporarily restricted funds at the Foundation consist of the following:

<u>Type of Restriction</u>	<u>December 31, 2005</u>	<u>New Gifts and Investment Earnings</u>	<u>Restrictions Released</u>	<u>December 31, 2006</u>
Program and capital restrictions	\$ 12,867,683	13,530,424	(10,615,795)	\$ 15,782,312

Significant temporarily restricted net assets consisted of the following at December 31, 2006:

<u>Type of Restriction</u>	<u></u>
George B. Lucas Permanent Fund accumulated earnings	\$ 2,070,314
Other permanently restricted net assets accumulated earnings	7,465,112
AISD Redesigning High Schools Fund	544,706
AISD Ann Richards School for Young Women	384,675
MSDF- AISD Performance Management	525,000
Austin American Statesmen Seasons for Caring	458,907
Barton Creek Salamander Conservation fund	308,175
Other temporarily restricted net assets	4,025,423
Total temporarily restricted assets	<u>\$ 15,782,312</u>

(7) Permanently Restricted Net Assets

The part of the net assets of a not-for-profit organization resulting from contributions whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization are considered permanently restricted net assets. An example of a permanently restricted net asset would be the donation of funds (or other assets) to the organization in which the donor imposed a restriction that the funds not be expended, but that the organization would be permitted to use or expend part or all of the income (or other economic benefit) derived from the donation.

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

(7) Permanently Restricted Net Assets (continued)

At December 31, 2006 and 2005, the Foundation had permanently restricted net assets restricted to:

	<u>2006</u>	<u>2005</u>
Investment in perpetuity, the income from which is expendable to support any activities of the organization	\$ 33,674,505	\$ 29,177,252
Endowment requiring a percentage of the income to be added to the original gift each year	<u>7,600,256</u>	<u>7,370,447</u>
Total permanently restricted net assets	\$ <u>41,274,761</u>	\$ <u>36,547,699</u>

At December 31, 2006, the Foundation had permanently restricted net assets in the following individually significant funds:

	<u>2006</u>
George B. Lucas Foundation Fund	\$ 12,423,996
Austin Community Foundation Endowment Fund	1,261,150
Sybil B. Harrington Endowment for the Arts	1,000,000
Deborah Ann Scott Foundation Fund	1,234,718
Dr. Henry Renfert, Jr, Fund	5,835,147
Nowlin Family Fund	3,200,000
The David W. Leonard Fund	1,658,922
Other permanently restricted net assets	<u>14,660,828</u>
Total permanently restricted net assets	\$ <u>41,274,761</u>

(8) Funds Held For Others

Certain amounts reported in the statements of financial position are accounted for as funds held for others. Details of these amounts at December 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Pittman Charitable Lead Unitrust-funds to be paid out to C&J Charitable Fund	\$ 280,481	\$ 271,945
Other	<u>117,372</u>	<u>30,833</u>
Total funds held for others	\$ <u>397,853</u>	\$ <u>302,778</u>

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

(9) Funds Held For Others-Agency Endowments

In 2002, the Organization adopted Financial Accounting Standards Board Statement No. 136, “*Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*”, which establishes standards for transactions in which a not-for-profit organization (such as 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. If a not-for-profit organization establishes with its own funds, a fund at a community foundation for its own benefit, the transfer of assets to the community foundation is not contribution revenue and should be accounted for as liability. The community foundation continues to report the funds as an asset of the foundation; however, they must establish a liability for the market value, representing the present value of the future payments expected to be made to the not-for-profit organization.

An agency endowment arises when a transfer is received from a not-for-profit organization where it specifies itself as the beneficiary. The following are reported as agency endowments as of December 31, 2006 and 2005:

<u>Not-for-Profit Organization</u>	<u>2006</u>	<u>2005</u>
A.R.C.I.L.	\$ 93,422	\$ 88,149
Austin Children’s Shelter	64,878	1,059
Austin High School	31,174	25,905
Austin History Center Association	41,175	38,918
Austin Smiles Reconstructive Surgery Fund	100,228	-
Casis Elementary School	37,690	33,839
Committee for Wild Basin Wilderness Foundation, Inc.	58,387	55,091
Highland Lakes Family Crisis Center	428,597	508
Hill Country Children’s Advocacy Center	30,844	-
JCAA Facilities Fund	183,698	-
JCAA Sand and Lisa Gottesman Education	97,564	97,564
Marble Falls Helping Center Memorial	47,443	-
New Milestones Foundation	211,864	190,147
Northwest Austin Rotary Club	42,808	21,522
O. Henry Middle School	30,967	26,718
Rawson-Saunders School	88,052	80,381
The Junior League of Austin	886,686	709,221
West Austin Youth Association	65,340	58,744
Wildlife Rescue, Inc.	34,928	31,348
Writer’s League of Texas	35,786	32,173
Other	158,709	176,374
Total funds held for others-agency endowments	\$ <u>2,770,240</u>	\$ <u>1,667,661</u>

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

(10) Retirement Plan

The Foundation has contracted with Administaff to provide employment services. Administaff provides a 401(k) plan for its eligible employees. The Foundation has agreed to contribute to this 401(k) plan. For the years ended December 31, 2006 and 2005, the Foundation contributed \$12,094 and \$7,228, respectively, representing up to 6% of the eligible employees' salaries to the plan.

(11) Split-interest Agreements

The Foundation is the beneficiary of one charitable remainder trust administered by a third party trustee. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the Statement of Activities as a permanently restricted contribution and as a receivable from a beneficial interest in the trust in the period the trust is established. On an annual basis, the Foundation revalues the receivable and the adjust contributions based on actuarial assumptions. The present value of the estimated future benefit to the Foundation is \$80,868 at December 31, 2006 and 2005, using a discount rate of 4% and applicable mortality tables. The fair value of the split interest agreements are included in other investments in the accompanying consolidated statements of financial position.

(12) Fair Value of Financial Instruments

The Foundation has estimated fair value of financial instruments in accordance with requirements of Statement of Financial Accounting Standards No. 107, "*Disclosures about Fair Value of Financial Instruments*." The estimated fair value amounts have been determined by the Foundation, using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the ACF could realize in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value amounts. The carrying amount of cash and cash equivalents, notes receivable, accounts and grants payable, and funds held for others approximated fair market value at December 31, 2006 and 2005, because of their relatively short maturity and market terms. The fair value of long term investments at December 31, 2006 and 2005 is determined based on quoted market values for U.S. government securities, fixed income securities and equity securities. The fair values for other investments are based on management's estimates.

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

(13) Credit Risk

Certain financial instruments potentially subject the Foundation to concentrations of credit risk. These financial instruments consist primarily of cash and cash equivalents, investments, and notes receivable. The cash policy of the Foundation limits the amount of credit exposure, and requires that cash be placed with high credit quality financial institutions. Credit risk on investments is limited due to wide diversification of the investment portfolio. At December 31, 2006, bank balances exceeded the FDIC insured limits by approximately \$2,500,000. The money market funds are maintained with investment brokerage firms that maintain the Foundation's funds in an interest bearing account and all such funds are backed by high quality short term financial instruments. The notes receivable are typically from donors and are unsecured. An allowance for uncollectible accounts is provided based on management's evaluation of potential uncollectible accounts and notes receivable at year end. At December 31, 2006 and 2005 there was no allowance for uncollectible accounts.

(14) Functional Classification of Expenses

Functional expenses are as follows:

		Manage- ment & General	Fund- raising	<u>2006</u>	<u>2005</u>
	<u>Programs</u>	<u>General</u>	<u>raising</u>	<u>Total</u>	<u>Total</u>
Grants	\$ 12,324,845	-	-	12,324,845	\$ 18,333,860
Special projects funding	3,979,729	-	-	3,979,729	1,965,543
Legal fees	10,436	15,653	-	26,089	5,583
Rent	8,847	17,748	2,958	29,580	29,580
Taxes	80,889	-	-	80,889	29,585
Management Fees	107,143	26,786	-	133,929	125,338
Credit card processing	35,824	6,322	-	42,146	10,757
Compensation	244,857	195,885	48,971	489,713	363,858
Depreciation	-	2,202	-	2,202	3,500
Public Awareness	14,517	29,033	4,839	48,389	36,474
Development	9,964	4,982	1,661	16,606	21,800
Other expenses	161,913	203,760	26,481	392,154	258,208
Total Expenses	<u>\$ 16,962,812</u>	<u>518,550</u>	<u>84,910</u>	<u>17,566,272</u>	<u>\$ 21,184,086</u>

The ratio of fundraising expense to total funds raised was 0.4% in 2006 and 0.5% in 2005.

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

(15) Lease Commitments.

The Foundation had entered into leases for certain administrative office equipment. Lease expense was approximately \$8,577 and \$9,044 for the years ended December 31, 2006 and 2005, respectively. The total amount of lease payments was being charged to expense on the straight-line method over the term of the lease.

The Foundation also received donated office space and have recognized a contribution and rental expense with a value of \$29,580 for both 2006 and 2005.

Future minimum lease payments are not significant.

(16) Charitable Holdings

Charitable Holdings (a nonprofit organization) was created with the specific goal to hold and dispose of tangible assets donated to Charitable Holdings such as real estate and other revenue producing assets. In accordance with Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, the follow summarized financial statements for Charitable Holdings were consolidated in the Foundation's financial statements for the years ended December 31, 2006 and 2005:

Statements of Financial Position

	<u>2006</u>	<u>2005</u>
Cash	\$ 12,387	\$ 8,387
Real estate	5,655,798	3,796,676
Limited partnership interest	89,026	89,026
River boat	395,500	452,000
Total assets	<u>\$ 6,152,711</u>	<u>\$ 4,346,089</u>
Liabilities	\$ 29,055	\$ -
Net assets - unrestricted	<u>6,123,656</u>	<u>4,346,089</u>
Total liabilities and net assets	<u>\$ 6,152,711</u>	<u>\$ 4,346,089</u>

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(16) Charitable Holdings (continued)

Statements of Activities

	<u>2006</u>	<u>2005</u>
Revenues		
Donations	\$ 1,838,727	\$ 264,801
Administration allocation	53,055	
Miscellaneous income	7,783	2,411
Total revenues	<u>1,899,565</u>	<u>267,212</u>
Expenses		
Administration allocation	53,055	-
Contribution to Foundation	-	262,859
Insurance	6,096	6,615
Other expenses	6,347	2,463
Depreciation	56,500	56,500
Total expenses	<u>121,998</u>	<u>328,437</u>
Changes in unrestricted net assets	1,777,567	(61,225)
Net assets at beginning of year	4,346,089	4,407,314
Net assets at end of year	<u>\$ 6,123,656</u>	<u>\$ 4,346,089</u>

(17) Life Insurance Policies and Life Annuity Contracts

The Foundation has participated in life insurance policies and life annuity contracts or "LILAC" transactions. In LILAC transactions, an unrelated entity forms a statutory business trust as a vehicle for paying the proceeds of life annuity contracts and life insurance policies to investors and charities. After the business trust is formed, the trust obtains life insurance and life annuities on the lives of consenting individuals, sells equity securities to investors, and issues a second class of securities to the charitable organization designated by the consenting individuals, such as the Foundation. The trust uses the life annuity payments to pay the life insurance premiums and to provide a return to the investors. As consenting individuals die, the trust will distribute the majority of the death benefit proceeds to the investors and distribute the remaining proceeds, if any to the Foundation. The organizers of the LILAC transactions have projected that the death benefits to be received by the Foundation is \$40 million over the next 10-15 years. The Foundation will payout the primary portion of the death benefits to other charities designated by the insured.

For financial accounting purposes, the Foundation will recognize any proceeds from the LILAC transactions as they are received. The Pension Protection Act of 2006 requires the Secretary of the Treasury to undertake a study on the use by tax exempt organizations of applicable insurance contracts such as LILAC. The ultimate outcome resulting from the study is not presently known.