

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

CONSOLIDATING FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2003 and 2002

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS	
Consolidating Statements of Financial Position .	2
Consolidating Statements of Activities	3
Consolidating Statements of Cash Flows	4
Notes to Consolidating Financial Statements . .	5
SUPPLEMENTAL SCHEDULE	
Schedule of Grants and Grant Related Expenses .	10

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidating statements of financial position of **Austin Community Foundation for the Capital Area, Inc.** (a non-profit organization) and its affiliates as of December 31, 2003 and 2002, and the related consolidating statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the consolidating financial position of **Austin Community Foundation for the Capital Area, Inc.** and its affiliates as of December 31, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of grants and grant related expenses on pages -10- through -15- is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dindler, Chappell, Morrison & Co., P.C.

Austin, Texas
March 5, 2004

FINANCIAL STATEMENTS

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

December 31, 2003 and 2002

(with summarized financial information as of December 31, 2002)

ASSETS	<u>ACF</u>	<u>Charitable Holdings</u>	<u>2003 Total</u>	<u>2002 Total</u>
Cash and cash equivalents (note 2)	\$ 13,124,290	\$ 35,631	\$ 13,159,921	\$ 11,263,697
Accrued investment income	44,038	-	44,038	54,205
Furniture and equipment (net of accumulated depreciation of \$49,308 and \$43,127)	10,563	-	10,563	13,105
Contributions receivable	4,535,887	-	4,535,887	288,801
Notes receivable	534,303	-	534,303	531,932
Other assets (note 4)	4,757	565,000	569,757	5,724
Long-term investments (note 3)	<u>50,410,976</u>	<u>23,500</u>	<u>50,434,476</u>	<u>37,595,740</u>
Total assets	<u>\$ 68,664,814</u>	<u>\$ 624,131</u>	<u>\$ 69,288,945</u>	<u>\$ 49,753,204</u>
 LIABILITIES AND NET ASSETS				
Bank overdraft	\$ -	\$ -	\$ -	\$ 32,687
Accounts payable	48,743	-	48,743	-
Awards and grants payable	36,150	-	36,150	60,000
Other payables	-	-	-	132,445
Funds held for others (note 10)	254,690	-	254,690	235,204
Funds held for others - agency endowments (note 11)	<u>2,336,330</u>	<u>-</u>	<u>2,336,330</u>	<u>2,036,851</u>
Total liabilities	<u>2,675,913</u>	<u>-</u>	<u>2,675,913</u>	<u>2,497,187</u>
 Net assets				
Unrestricted	31,312,302	624,131	31,936,433	20,180,484
Temporarily restricted (note 6)	-	-	-	-
Permanently restricted (note 7)	<u>34,676,599</u>	<u>-</u>	<u>34,676,599</u>	<u>27,075,533</u>
Total net assets	<u>65,988,901</u>	<u>624,131</u>	<u>66,613,032</u>	<u>47,256,017</u>
Total liabilities and net assets	<u>\$ 68,664,814</u>	<u>\$ 624,131</u>	<u>\$ 69,288,945</u>	<u>\$ 49,753,204</u>

See accompanying Notes to Consolidating Financial Statements.

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

CONSOLIDATING STATEMENTS OF ACTIVITIES

Years Ended December 31, 2003 and 2002

(with summarized financial information for the year ended December 31, 2002)

	<u>ACF</u>	<u>Charitable Holdings</u>	<u>2003 Total</u>	<u>2002 Total</u>
Changes in unrestricted net assets:				
Revenues and gains				
Contributions	\$ 18,343,964	\$ 592,538	\$ 18,936,502	\$ 8,386,063
Investment income	1,037,848	-	1,037,848	1,049,453
Other income	317,398	-	317,398	150,620
Net unrealized/realized gain on long-term investments	3,677,540	-	3,677,540	83,900
Net transfers to/from permanently restricted net assets	<u>2,053,613</u>	<u>-</u>	<u>2,053,613</u>	<u>1,577,007</u>
Total unrestricted revenues and gains	<u>25,430,363</u>	<u>592,538</u>	<u>26,022,901</u>	<u>11,247,043</u>
Expenses				
Program services				
Community grants	11,905,097	-	11,905,097	10,190,079
Other program services	<u>2,013,747</u>	<u>350</u>	<u>2,014,097</u>	<u>1,301,388</u>
Total program services	13,918,844	350	13,919,194	11,491,467
Management and general	284,745	700	285,445	258,851
Fund raising	<u>62,196</u>	<u>117</u>	<u>62,313</u>	<u>59,750</u>
Total expenses	<u>14,265,785</u>	<u>1,167</u>	<u>14,266,952</u>	<u>11,810,068</u>
Increase (Decrease) in unrestricted net assets	<u>11,164,578</u>	<u>591,371</u>	<u>11,755,949</u>	<u>(563,025)</u>
Changes in permanently restricted net assets:				
Revenues and gains				
Contributions	5,895,572	-	5,895,572	1,384,969
Retained income on long-term investments	18,272	-	18,272	39,257
Other income	110,849	-	110,849	200,513
Net unrealized/realized gain on long-term investments	3,629,986	-	3,629,986	(3,304,783)
Net transfers to/from permanently restricted net assets	<u>(2,053,613)</u>	<u>-</u>	<u>(2,053,613)</u>	<u>(1,577,007)</u>
Total permanently restricted revenues and gains	<u>7,601,066</u>	<u>-</u>	<u>7,601,066</u>	<u>(3,257,051)</u>
Increase (Decrease) in permanently restricted assets	<u>7,601,066</u>	<u>-</u>	<u>7,601,066</u>	<u>(3,257,051)</u>
Change in net assets before other changes and cumulative effect of change in accounting principle	18,765,644	591,371	19,357,015	(3,820,076)
Other changes in net assets	-	-	-	(39,198)
Cumulative effect of change in accounting principle	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,985,140)</u>
Change in net assets	18,765,644	591,371	19,357,015	(5,844,414)
Beginning of year	<u>47,223,257</u>	<u>32,760</u>	<u>47,256,017</u>	<u>53,100,431</u>
End of year	<u>\$ 65,988,901</u>	<u>\$ 624,131</u>	<u>\$ 66,613,032</u>	<u>\$ 47,256,017</u>

See accompanying Notes to Consolidating Financial Statements.

AUSTIN COMMUNITY FOUNDATION FOR THE CAPITAL AREA, INC.

CONSOLIDATING STATEMENTS OF CASH FLOWS

Years Ended December 31, 2003 and 2002

(with summarized financial information as of December 31, 2002)

	<u>ACF</u>	<u>Charitable Holidngs</u>	<u>2003 Total</u>	<u>2002 Total</u>
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES				
Change in net assets	\$ 18,765,644	\$ 591,371	\$ 19,357,015	\$ (3,820,076)
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation	6,181	-	6,181	5,758
Increase in reclassification of investments to cash	1,487,052	-	1,487,052	11,254,437
Non-cash contributions	(10,238,432)	-	(10,238,432)	(4,306,462)
Net realized and unrealized gain/loss on investments	(7,607,002)	-	(7,607,002)	2,752,857
Receivable - stock sale proceeds	-	-	-	(43,603)
Transfers to/from investment cash	-	-	-	41,791
(Increase) decrease in operating assets				
Decrease in accrued investment income	10,167	-	10,167	20,135
Increase in contributions receivable	(4,247,086)	-	(4,247,086)	1,202,012
Increase in other assets	-	(565,000)	(565,000)	2,185
Increase in notes receivable	(620,349)	-	(620,349)	(409,000)
Increase (decrease) in operating liabilities				
Increase in funds held for others	318,965	-	318,965	-
Increase in awards and grants payable	24,893	-	24,893	(88,000)
Decrease in other payables	(132,445)	-	(132,445)	92,603
Contributions and investment income restricted for long-term investments, including certain non-cash contributions	<u>7,601,067</u>	<u>-</u>	<u>7,601,067</u>	<u>3,257,051</u>
Net cash provided by (used by) operating activities	<u>5,368,655</u>	<u>26,371</u>	<u>5,395,026</u>	<u>9,961,688</u>
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES				
Purchase of fixed assets	(2,672)	-	(2,672)	-
Gain on disposal of fixed assets	-	-	-	(9,438)
Proceeds from sale of investments	3,519,646	-	3,519,646	4,693,491
Contributed notes receivable	-	-	-	(50,000)
Payments received on notes receivable	617,978	-	617,978	107,241
Net cash provided by (used by) investing Activities	<u>4,134,952</u>	<u>-</u>	<u>4,134,952</u>	<u>4,741,294</u>
CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES				
Proceeds from contributions restricted for investment in endowment	<u>(7,601,067)</u>	<u>-</u>	<u>(7,601,067)</u>	<u>(3,257,051)</u>
NET INCREASE (DECREASE) IN CASH	1,902,540	26,371	1,928,911	11,445,931
CASH AND CASH EQUIVALENTS				
Beginning of year	<u>11,221,750</u>	<u>9,260</u>	<u>11,231,010</u>	<u>(214,921)</u>
End of year	<u>\$13,124,290</u>	<u>\$ 35,631</u>	<u>\$13,159,921</u>	<u>\$ 11,231,010</u>
SUPPLEMENTAL INFORMATION:				
Interest paid	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Taxes paid	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying Notes to Consolidating Financial Statements.

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

DESCRIPTION OF THE ORGANIZATION

The Austin Community Foundation for the Capital Area, Inc. (the Foundation) was formed in 1977 as a publicly supported, non-profit corporation for the purpose of receiving 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 Board of Governors is responsible for the property and assets of the Foundation. New members to the Board of Governors are slated by a nominating committee made up of Governors. The slate of candidates is voted upon by the entire Board.

The Foundation is exempt from Federal income tax under 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 consolidating financial statements include the accounts of the Foundation and its affiliate Charitable Holdings (the Company). All inter-company transactions have been eliminated in consolidation. Under consolidation, the affiliate's statement of financial position and statement of activities are reflected within the Foundation's consolidating financial statements. Charitable Holdings was formed in October 1991 to assist the Foundation in carrying out the charitable purposes for which the Foundation was organized and is operated. The initial Board of Directors for Charitable Holdings was selected by the Foundation. Subsequent directors are to be elected by the remaining Directors of Charitable Holdings.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The Foundation uses the accrual basis method of accounting. Using this method of accounting, revenues and other support are reported when the funds are considered earned, regardless of when the cash is received. Expenses are reported when the obligation is incurred, regardless of when the cash is disbursed.

Contribution and note receivables are stated at the amount the Foundation expects to collect. Management considers the following factors when determining the collectibility of contribution and note receivables: past transaction history and current economic trends. No allowance for doubtful accounts was considered necessary by the Foundation's management. Interest income is accrued on note receivables.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Gains and losses on investments are reported in the statement of activities as increases and decreases in unrestricted net assets unless their use is permanently restricted by explicit donor stipulations. All non-cash contributions are recorded at fair market value at the date of receipt.

Investment securities are exposed to various market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in net values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Fixed assets are recorded at cost. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives of the related assets using the straight-

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

line method for financial statement purposes. The estimated useful lives for fixed assets purchased for greater than \$1,000 and that have an estimated useful life of greater than one year are as follows: Machinery and equipment 3 to 10 years

Cash and cash equivalents consist primarily of cash on deposit, certificates of deposit, money market accounts, and investment grade commercial paper that are readily convertible into cash and purchased with original maturities of three months or less.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Cash	\$ 418,432	\$ 9,260
Money market funds	12,741,489	11,254,437
Total cash and cash equivalents	<u>13,159,921</u>	<u>11,263,697</u>

NOTE 3: INVESTMENTS

The composition of the Foundation's investments consisted of the following at December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Cash surrender value of life insurance policies	\$ 864,962	\$ 824,135
U.S. government and agency obligations	1,844,965	8,300,511
Fixed income securities	11,267,641	3,332,234
Equity securities	33,226,089	22,106,277
Land interests	2,270,570	2,619,881
Other investments	960,249	412,702
Total investments	<u>50,434,476</u>	<u>37,595,740</u>

The composition of the Foundation's investment return consisted of the following for the year ended December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Interest income	\$ 187,464	\$ 250,374
Dividends	850,384	838,336
Total unrestricted and permanently restricted investment income	1,037,848	1,088,710
Net realized and unrealized gain on marketable securities	<u>7,607,002</u>	<u>(3,220,883)</u>
	<u>8,644,850</u>	<u>(2,132,173)</u>

NOTE 4: OTHER ASSETS

Other assets is comprised of prepaid expenses and a riverboat contributed to the Foundation's affiliate. The riverboat is valued at the fair market value as determined by a third party appraisal. The Foundation's affiliate intends to rent the riverboat to third parties for special occasions. The following is other assets at December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Prepaid expenses	\$ 4,757	5,724
Riverboat	565,000	-
Total other assets	<u>569,757</u>	<u>5,724</u>

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 5: COMMITMENTS - LEASES

The Foundation is obligated on leases for office equipment that, for accounting purposes, are treated as operating leases. As operating leases, the obligations are not reported in the financial statements. The future minimum lease payments required on these leases are the following: 2004- \$5,280; 2005- \$4,740; 2006- \$4,740; and 2007- \$3,555.

Expenses for year ended December 31, 2003 and 2002 under operating leases were \$5,803 and \$26,886.

The Foundation also benefited during the year from an agreement with a law firm, in which the Foundation occupied their vacated office space at no cost. The agreement continues on a day-to-day basis, due to the fact that the law firm is attempting to sublease this space. The value of the contributed space has been recorded at its estimated value of \$29,580 in the financial statements.

NOTE 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, the Foundation had no temporarily restricted net assets.

NOTE 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.

At December 31, 2003 and 2002, the Foundation had permanently restricted net assets restricted to:

Investment in perpetuity, the income from which is expendable to support any activities of the organization	2003 <u>\$ 24,229,324</u>
Endowment requiring a percentage of the income to be added to the original gift each year	<u>10,447,275</u>
	<u><u>34,676,599</u></u>
Investment in perpetuity, the income from which is expendable to support any activities of the organization	2002 <u>\$ 24,330,092</u>
Endowment requiring a percentage of the income to be added to the original gift each year	<u>2,745,441</u>
	<u><u>27,075,533</u></u>

NOTE 8: CONCENTRATION OF CREDIT RISK

Certain financial instruments potentially subject the Foundation to concentrations of credit risk. These financial instruments consist primarily of cash and investments. The Foundation's cash consists of highly liquid cash deposits held in a major

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 8: CONCENTRATION OF CREDIT RISK (CONTINUED)

financial institution. The Foundation's operating accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000 and at times, may exceed federally insured limits. The investments held in other accounts are insured by the Securities Investment Protection Corporation or other coverage provided by the broker. The Foundation continuously reviews the credit risk of its financial instruments and has not experienced, nor anticipates, any losses in such accounts.

NOTE 9: 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. To be eligible, an employee must be over 21 years of age and have worked at the Foundation for a minimum of six months. At December 31, 2003, there were four eligible employees. The Foundation's contributions to the plan must be approved by the Board at the end of each fiscal year. For the year-ended December 31, 2003 and 2002, the Foundation contributed \$5,113 and \$7,240 or 3% of the eligible employees' salaries to the plan.

NOTE 10: FUNDS HELD FOR OTHERS

Certain amounts reported in the consolidating statement of financial position are accounted for as funds held for others. Details of these amounts at December 31, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Georgetown Area Community Foundation - funds held for payroll related expenses	\$ -	\$ 13,531
Greenlights for Non-Profit Success - funds held for payroll related expenses	-	15,010
Pittman Charitable Lead Unitrust - funds to be paid out to C&J Charitable Trust	<u>254,690</u>	<u>206,663</u>
Total funds held for others	<u>254,690</u>	<u>235,204</u>

NOTE 11: 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 a 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 in the financial statements:

<u>Not-for-profit organization</u>	<u>2003</u>	<u>2002</u>
A.R.C.I.L.	\$ 82,641	\$ 70,731
Austin History Center Association	36,540	38,090
Austin Chamber Music Center	8,192	5,442
Writer's League of Texas	27,871	23,159

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

NOTE 11: FUNDS HELD FOR OTHERS - AGENCY ENDOWMENTS (CONTINUED)

	<u>2003</u>	<u>2002</u>
Austin High School	21,823	18,106
Austin Child Guidance Center	10,336	8,566
Casis Elementary School	29,068	22,471
Center for Battered Women	2,586	2,149
The Junior League of Austin	474,350	341,371
New Milestones Foundation	163,935	136,224
Northwest Austin Rotary Club	24,229	20,133
O. Henry Middle School	17,194	11,419
Rawson-Saunders School	70,684	63,535
Shoes for America	-	17,029
Umlauf Sculpture Garden	1,238,123	1,157,952
West Austin Youth Association	50,707	36,018
Committee for Wild Basin Wilderness Foundation, Inc.	51,649	44,205
Wildlife Rescue, Inc.	26,402	20,251
Total funds held for others - agency endowments	<u>2,336,330</u>	<u>2,036,851</u>

SUPPLEMENTAL SCHEDULE

