The Dallas Foundation and Affiliates

Consolidated Financial Report
Year Ended December 31, 2018

Assurance • Tax • Advisory

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Independent Auditor's Report

To the Board of Governors of
The Dallas Foundation and Affiliates
Dallas, Texas

We have audited the accompanying consolidated financial statements of The Dallas Foundation and its affiliates (the Foundation), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Dallas Foundation and its affiliates as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 2, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, and direction for consistency in the type of information provided about expenses and investment return. The Foundation adopted ASU 2016-14. The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

As discussed in Note 14 to the consolidated financial statements, the December 31, 2017 net assets have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2019 on our consideration of The Dallas Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Dallas Foundation's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
September 30, 2019

The Dallas Foundation and Affiliates

Consolidated Statement of Financial Position

December 31, 2018

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 5,298,629
Investments	360,446,120
Prepaid expenses and other receivables	245,220
Contributions receivable, net	7,685,492
Interests in irrevocable trusts	39,220,212
Real estate and mineral interests	6,898,855
Property and equipment, net	141,243
TOTAL ASSETS	$ 419,935,771
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and other liabilities	$ 3,045,878
Grants and program services payable, net	16,046,620
Assets held for others	13,829,474
Total liabilities	32,921,972
NET ASSETS	
Without donor restrictions	325,612,194
With donor restrictions	61,401,605
Total net assets	387,013,799
TOTAL LIABILITIES AND NET ASSETS	$ 419,935,771

The Notes to Consolidated Financial Statements
are an integral part of this statement.

The Dallas Foundation and Affiliates

Consolidated Statement of Activities

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Donor contributions	$ 60,091,255	$ 1,710,499	$ 61,801,754
Grant revenues	118,782	-	118,782
Less amounts raised or received on behalf of others	(1,218,570)	-	(1,218,570)
Net contributions	58,991,467	1,710,499	60,701,966
Provision for uncollectible pledges	-	64,700	64,700
Total investment income	6,367,098	396,543	6,763,641
Less income on assets held for others	(354,209)	-	(354,209)
Net investment income	6,012,889	396,543	6,409,432
Total investment realized / unrealized gains (losses), net	(52,988,425)	(1,469,595)	(54,458,020)
Less investment losses on assets held for others	(888,410)	-	(888,410)
Net investment realized / unrealized losses	(53,876,835)	(1,469,595)	(55,346,430)
Change in value of interests in irrevocable trusts and related income	984,983	7,153,924	8,138,907
Rental, royalty, and other income	1,028,478	19,559	1,048,037
Net assets released from restrictions	11,132,074	(11,132,074)	-
Total revenues and support	24,273,056	(3,256,444)	21,016,612
EXPENSES AND DISTRIBUTIONS			
Total grants and program services	68,616,770	-	68,616,770
Less grants on assets held for others	(530,224)	-	(530,224)
Educational support	564,962	-	564,962
Total program services	68,651,508	-	68,651,508
Supporting services and administrative	3,734,335	-	3,734,335
Fundraising	1,900,416	-	1,900,416
Total expenses and distributions	74,286,259	-	74,286,259
Change in net assets	(50,013,203)	(3,256,444)	(53,269,647)
NET ASSETS, beginning of year (as restated)	375,625,397	64,658,049	440,283,446
NET ASSETS, end of year	$ 325,612,194	$ 61,401,605	$ 387,013,799

The Notes to Consolidated Financial Statements are an integral part of this statement.

The Dallas Foundation and Affiliates

Consolidated Statement of Functional Expenses

Year Ended December 31, 2018

	Grants and Program Services	Educational Support	Total Program Services	General and Administrative	Fundraising	Total
Grants and other assistance	$ 47,630,232	$ -	$ 47,630,232	$ -	$ -	$ 47,630,232
Salaries and Benefits	3,149,980	542,620	3,692,600	963,898	552,760	5,209,258
Professional Services	12,271,188	3,577	12,274,765	1,257,112	446,965	13,978,842
Marketing and Advertising	645,192	-	645,192	47,771	56,479	749,442
Meetings, Conferences, and Travel	577,803	5,364	583,167	102,279	331,130	1,016,576
Office Expenses	1,063,360	826	1,064,186	398,781	296,819	1,759,786
Occupancy	404,969	5,243	410,212	648,515	152,296	1,211,023
Information Technology	58,899	-	58,899	173,367	-	232,266
Insurance	12,176	-	12,176	32,542	-	44,718
Other Expenses	2,260,921	1,699	2,262,620	95,289	59,430	2,417,339
Depreciation	11,826	5,633	17,459	14,781	4,537	36,777
TOTAL EXPENSES	$ 68,086,546	$ 564,962	$ 68,651,508	$ 3,734,335	$ 1,900,416	$ 74,286,259

The Notes to Consolidated Financial Statements are an integral part of this statement.

The Dallas Foundation and Affiliates

Consolidated Statement of Cash Flows

Year Ended December 31, 2018

OPERATING ACTIVITIES	
Change in net assets	$ (53,269,647)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Provision for losses on uncollectible contributions	64,700
Amortization of contributions receivable discount	(130,461)
Amortization of grants payable	202,641
Amortization of charitable remainder trusts	(2,020,806)
Amortization of lead trust discount	63,152
Change in value of beneficial interests	(790,059)
Realized and unrealized losses on investments	54,458,020
Realized and unrealized gains on beneficial interest trusts	(4,192,914)
Unrealized gains on real estate and mineral interests	(4,850,208)
Investment income restricted for long term purposes	(396,543)
Depreciation expense	36,777
Changes in operating assets and liabilities:	
Prepaid expenses and other receivables	107,817
Contributions receivable	8,907,392
Accounts payable and other liabilities	1,457,046
Grants and program services payable	(1,120,316)
Assets held for others	(14,259)
Net cash used in operating activities	(1,487,668)
INVESTING ACTIVITIES	
Purchases of investments	(82,901,458)
Proceeds from sales and maturities on investments	87,230,159
Purchases of property and equipment	(5,719)
Net cash provided by investing activities	4,322,982
FINANCING ACTIVITIES	
Distributions from beneficial interests in charitable remainder trusts	259,898
Investment income restricted for long term purposes	396,543
Net cash provided by investing activities	656,441
Net increase in cash and cash equivalents	3,491,755
CASH AND CASH EQUIVALENTS, beginning of year	1,806,874
CASH AND CASH EQUIVALENTS, end of year	$ 5,298,629
SUMMARY OF NONCASH ACTIVITIES	
Non-cash contributions	$ 1,861,932

The Notes to Consolidated Financial Statements
are an integral part of this statement.

Note 1. Nature of Operations

The Dallas Foundation (The Foundation) is a community foundation that brings together people, ideas and investments in Greater Dallas. The Foundation partners with donors and donor families to help them create and execute their philanthropic vision while simultaneously focusing on key community issues. Grants awarded benefit a range of areas including arts and humanities, education, health, animal welfare, and social services. The Foundation also serves as the administrative home for mission-driven initiatives requiring fiscal sponsorship.

Note 2. Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements are as follows:

Principles of Consolidation

The consolidated financial statements include the assets, liabilities, net assets, and changes in net assets, statement of functional expenses, and cash flows of the Foundation and its three affiliated supporting organizations. The affiliated organizations are included with the Foundation in the accompanying consolidated financial statements because the Foundation has an economic interest in the organizations and controls the affiliated organizations' Boards of Directors. All significant inter-organization transactions have been eliminated. The Foundation and its affiliates are collectively referred to as the Foundation throughout these consolidated financial statements.

New Accounting Pronouncement and Adoption

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update is intended to improve the complexity and understandability of net asset classification, information about liquidity and availability of resources, and improve consistency in the type of information provided about expenses and investment return. The main provisions of this guidance include: presentation of two classes of net assets versus the previously required three, recognition of underwater endowment funds as a reduction of net assets with donor restrictions, and reporting investment income net of external and direct internal investment expenses. The guidance also enhances disclosures for net assets, liquidity, and the methods used to allocate expenses among program and supporting functions. The Foundation implemented the pronouncement in 2018 and has adjusted the presentation of the statements accordingly.

Basis of Presentation

The Foundation's consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial statement presentation follows the recommendations of the FASB Accounting Standards Codification (ASC) Topic 958, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed use or time restrictions. When the Board of Governors (the Board) has the ability to remove a donor restriction (i.e., variance power), the contribution is classified as without donor restrictions. Under the terms of certain gift instruments, the assets are held and invested in a manner similar to endowment funds; however, the Board has the authority, if it deems it prudent and appropriate, to expend the entirety of the principal or appreciation.

In addition, the Foundation receives contributions from donors with advice regarding distribution of the assets and their related earnings. The Foundation attempts to meet the desires expressed by the donors at the time of the contribution; however, the Foundation reserves the right to modify any restrictions or conditions on the distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgment of the Board, such restrictions or conditions become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. Accordingly, all net assets and related activity over which the management of the Foundation exercises direct control are classified as net assets without donor restrictions in the consolidated financial statements.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions that will either be met by actions of the Foundation, by the passage of time, or are to be maintained perpetually. Net assets and related activity from term trusts, whereby the Foundation has a beneficial interest in a stream of income over a specified period of time, as well as contributions receivable restricted to use in future periods, are recorded as net assets with donor restrictions. These assets are released from their implicit time restriction when the cash (or other assets) is collected. Net assets and related activity from perpetual trusts, whereby the Foundation has a beneficial interest in a stream of income in perpetuity, are also recorded as net assets with donor restrictions.

The State of Texas has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and the Board, on the advice of legal counsel, has determined that the Foundation's net assets do not meet the definition of an endowment under UPMIFA. The Foundation is governed subject to the terms of its by-laws and articles of incorporation, and some contributions are subject to the terms of these governing documents. Under the terms of the Foundation’s governing documents, the Board has the ability to distribute the corpus of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions to the Foundation (except as previously explained) are classified as without donor restrictions for financial statement purposes. While the assets of the Foundation do not meet the definition of an endowment as defined under UPMIFA, some of the assets function as endowments and are managed by The Foundation similar to endowment funds.

Transfers of financial assets from a resource provider to the Foundation for the benefit of the resource provider and/or its affiliates are recorded at fair value. The Foundation recognizes the assets received concurrent with its recognition of a liability to the specified beneficiary (i.e., assets held for others). The Foundation follows the gross method of reporting such transactions; therefore, all assets of this type, and the activity associated with those assets, are reported as assets held for others in the consolidated statement of financial position (see Note 9).

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased, excluding cash equivalent funds held in the Foundation’s investment portfolio, to be cash equivalents.

Contributions and Contribution Receivable

Contributions received (including unconditional promises to give) are recorded as without or with donor-restricted support in the period received depending on the existence and/or nature of any donor restrictions. The Foundation reports contributions as restricted support if the support is received with donor restrictions that limit the use of the donated assets. When and if a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to net assets without restriction and reported in the consolidated statement of activities as net assets released from restriction. Contributions initially restricted by donor stipulation and for which the restriction will be satisfied in the same year are recorded as net assets without donor restrictions. Support that is not restricted by the donor or in cases where the Foundation has clear legal variance power over the funds are reported as an increase in net assets without donor restrictions in the reporting period in which the support is recognized. Contributions of assets other than cash are recorded at their estimated fair value. Conditional promises to give depend on the occurrence of a specified future and uncertain event to bind the potential donor. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. No amounts have been recognized in the consolidated financial statements for conditional promises to give, which generally arise from the Foundation being named as a beneficiary in a revocable will or trust, because the conditions on which such contributions depend have not been substantially met.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional promises to give that are expected to be collected in future years are initially reported at fair value, which is determined using the discounted present value of estimated future cash flows technique and using a discounted rate commensurate with the risks involved. The resulting discount is amortized and reported as restricted contribution revenue.

An allowance for uncollectible accounts is estimated based on management's analysis of specific pledges in addition to a reserve based on historical collection experience, type of contribution, and nature of the fund-raising activity, and is adjusted for those contributions receivable for which collection is uncertain. The allowance for uncollectible accounts is approximately $134,000 for the year ended December 31, 2018. Such amounts will be written-off if they are deemed uncollectible. Management believes that the allowance for uncollectible accounts adequately provides for any unexpected uncollectible contributions. Bad debt losses associated with the allowance for uncollectible accounts for restricted net assets are reported in other changes in net assets. Historically, the Foundation has experienced minimal losses on receivables.

Certain contributed services are reflected in the consolidated financial statements at the estimated fair value of the services received. Contributed services are recognized as revenue in the accompanying consolidated financial statements if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and (c) would typically need to be purchased if not provided by donation.

The Foundation received $1,861,932 of donated goods and services primarily for advertisements and legal and professional services in the year ended December 31, 2018. Such donated services are included in without donor restrictions contributions revenue and general and administrative expense.

Investments

Investments are made according to the Statement of Investment Policy adopted by the Foundation's Board. These guidelines provide for investment in equities, fixed income, and other securities with performance measured against appropriate indices. The Foundation contracts with outside parties to provide investment management and consulting services.

Investments, including U.S. government securities, fixed income securities, equity securities (including stock funds), land, oil and gas leaseholds, interests in private equity and hedge funds, partnership interests and other investments are carried at fair value.

Other real estate is carried at the lower of cost or fair value. Fair value is determined through valuation techniques using Level 3 inputs.

Investment Income

Investment income includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value calculated based on the cost of the investment sold less the original purchase price less external and direct investment expenses. Interest income is recorded when earned and dividends are recorded on the ex-dividend date.

Investment income and realized gains and losses in restricted net assets are reported as increases in restricted net assets until budgeted for spending. The change in fair value between years along with realized gains or losses are reflected in the consolidated statement of revenues and expenses in the year of the change.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the accompanying consolidated statement of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Investment Valuation

Investments are comprised of short term funds, certificates of deposit, common and preferred stock, U.S. treasuries, U.S. government sponsored enterprises, corporate bonds, municipal bonds, mutual funds, and non-marketable securities. The fair value of investments in U.S. government securities, fixed income securities, and equity securities, traded on national securities exchanges is valued at the closing price on the last business day of the fiscal year; securities traded on the over-the-counter market are valued at the last reported bid price.

In establishing the fair value of investments in limited partnerships, the Foundation utilizes the reported net asset value or its equivalent for those investments that are reported consistent with current investment company guidance and do not have a readily determinable fair value. For those investments that do not meet the requirements to be valued using net asset value or its equivalent, the Foundation takes into consideration information received from those partnerships, including their financial statements, issues related to liquidity or redemption requirements and other pertinent information that impacts the fair value determination.

The difference between cost and fair value is reflected as change in net unrealized appreciation or depreciation of investments. Realized gains and losses are the difference between the proceeds of sale and the cost of the investments. Cost of the investment at each redemption is determined based on the percentage of the fair value redeemed. Expenses are recorded on the accrual basis as incurred.

Real property values are initially based on independent appraisals which are updated as deemed necessary by management. Additionally, on an annual basis, Foundation management analyzes comparable sales data sourced from independent third parties to estimate changes in real property fair values.

Oil and gas leaseholds are valued by management based on current cash flow from the properties multiplied by a market multiple to estimate fair value.

The carrying values of certificates of deposit are valued using quoted market value which approximates fair value.

The fair values of mutual funds are determined primarily by reference to quoted market prices.

Nonexchange-traded instruments and over-the-counter positions are primarily valued using independent pricing services, broker quotes or models with externally verifiable inputs. The fair values of alternative investments (interests in private equity, hedge, real estate and other similar funds) for which quoted market prices are not available are generally measured based on reported partner's capital or net asset value (NAV) provided by the associated external investment managers. The reported partner's capital or NAV is subject to management's assessment that the valuation provided is representative of fair value. The Foundation exercises diligence in assessing the policies, procedures and controls implemented by its external investment managers, and thus believes the carrying amount of these assets represents a reasonable estimate of fair value. However, because alternative investments are generally not readily marketable, their estimated value is subject to inherent uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

The Foundation uses NAV to determine fair value of those underlying investments that (a) do not have a readily determinable fair value and (b) either have attributes of an investment company or prepare its financial statements consistent with the measurement principles of an investment company. The Foundation has $6,682,616 of investments that are reported at NAV at December 31, 2018. For these investments, the Foundation has concluded that the NAV reported by the underlying fund is a practical expedient to estimating fair value.

All non-cash contributions are recorded at fair value at the date of receipt. Stock is recorded at the average of the high and low selling price on the date received. The policy of the Foundation is to immediately sell donated stock unless there is a donor restriction not to do so.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

The Foundation targets a diversified asset allocation that places a greater emphasis on equity based investments to achieve its long-term return objectives within prudent risk constraints. Additionally, the Finance, Audit, and Investment Committee of the Board reviews the investment policy and recommends changes when necessary.

Interest in Irrevocable Trusts

The Foundation is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Foundation. The Foundation has an irrevocable right to a portion of the net income of these trusts. The Foundation's interest in these trusts is recorded at fair value of the estimated future cash flows, which is measured using the fair value of the underlying trust assets adjusted for the Foundation's beneficial interest percentage of the total trust. The trusts are recorded in the period in which the Foundation receives notice that the trust agreement conveys an unconditional right to receive specified benefits. The trusts generally distribute 5% of the average fair market value of the trust for the previous three years or the actual trust income to the Foundation. The beneficial interest is classified as net assets with donor restrictions.

Distributions received from these trusts are recorded as investment income based upon relevant restrictions, and changes in the market value are recorded as a change in value of interest in irrevocable trusts and related income in the consolidated statement of activities. These trusts totaled $30,937,450 as of December 31, 2018 and are included in interest in irrevocable trusts on the consolidated statement of financial position.

Under charitable lead trust agreements, the Foundation receives annual benefits over the term of the trust with remaining trust assets at the end of the trust's term being distributed to a third party beneficiary. For irrevocable charitable lead trusts when the Foundation is not the trustee, assets of the trust are classified as restricted and carried at fair value in the consolidated statement of financial position based on the present value of amounts which the Foundation expects to receive over the terms of the agreement. The assets of the trusts are valued over an initial period ranging from 15 to 20 years using the current discount rate of 6% at December 31, 2018 and the estimated net investment return of the trust which is estimated at 8.0% to 10.0% at December 31, 2018. The trusts will terminate between September 2020 and December 2025. Changes in the fair value of beneficial interests are reflected as restricted changes in value of interest in irrevocable trusts in the consolidated statement of activities. These trusts totaled $722,934 as of December 31, 2018 and are included in interest in irrevocable trusts on the consolidated statement of financial position.

The Foundation is the beneficiary of various charitable remainder trusts. The fair value of the assets, net of associated liabilities as of December 31, 2018, is $7,559,828. Specified distributions are to be made to designated beneficiaries over the trusts' terms. Upon termination of the trusts, the Foundation receives the assets remaining in the trust. The trusts are recorded as an increase to net assets at the fair value of the trusts' assets, less the present value of the estimated future payments to be made under the specific terms of the trust.

Revenue and Expenses

Contribution revenue is reported as an increase in net assets without donor restriction unless use of the related asset is limited by a donor-imposed time restriction. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is limited by a donor-imposed time restriction. Expirations of temporary restrictions on net assets (i.e., the stipulated time period has elapsed or the cash has been collected) are reported as net assets released from restrictions.

Grants

Support funded by grants is recognized as the Foundation meets the condition prescribed by the grant agreement, performs the contracted services, or incurs outlays eligible for reimbursement under the grant agreement. Grant activities and outlays are subject to audit and acceptance by the granting agency, and as a result of such audit, adjustments could be required.

Property and Equipment

Furniture and equipment are stated at cost or, if donated, the fair market value at the date of the gift, less accumulated depreciation. The Foundation capitalizes purchases (or donations) of furniture and equipment in excess of $5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are seven years for furniture and fixtures, three to five years for software, and three to seven years for equipment.

The Foundation evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of an asset may not be recoverable.

The assessment of possible impairment is based on whether the carrying amount of the asset exceeds the expected total undiscounted cash flows expected to result from the use of the assets and their eventual disposition. No impairments were recorded in 2018.

Grants and Program Service Payable

Grants and program services payable consist of unconditional amounts awarded, but not paid, to not-for-profit organizations or vendors on their behalf. Unconditional grants are recognized as an expense in the period in which they are approved by the Board. Management has the ability, as permitted by the Board, to approve certain types of grants which are not ratified by the Board until the subsequent year. Grants are made from available principal and income in accordance with the designations of donors. Grants dependent on the occurrence of a specified and uncertain event are not recognized until the conditions on which they depend are substantially met. Grants to be paid after one year are initially recognized at fair value using risk and an adjusted discount rate of 4% at December 31, 2018. Amortization of the discount is recorded as additional grant expense.

Income Taxes

The Foundation is a public charitable trust organized under the laws of the State of Texas and is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code (the Code).

Highland Dallas Foundation, Inc. (Highland), Empower Dallas Foundation, Inc. (Empower), and Okada Family Foundation, Inc. (Okada) are public charities organized under the laws of the State of Delaware and are exempt from federal income tax under Section 501(c)(3) of the Code. Highland, Empower, and Okada are organized to operate exclusively to support and benefit the Foundation (and are classified as Type 1 supporting organizations). Generally, all revenue earned outside the purpose for which the Foundations are created is taxable as earned income. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

The Foundation follows the provisions of ASC 740-10, *Income Taxes*, related to unrecognized tax positions. The Foundation recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the taxing authorities, based on the technical merits of the positions. The tax benefits recognized in the consolidated financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Foundation does not believe there are any material uncertain tax positions and accordingly, it will not recognize any liability for unrecognized tax benefits. For the year ended December 31, 2018 there were no interest or penalties recorded or included in the financial statements.

The Foundation is relying on its tax-exempt status and its adherence to all applicable laws and regulations to preserve that status. However, the conclusions regarding accounting for uncertainty in income taxes will be subject to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations, and interpretations thereof.

The Foundation recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense. The Foundation's informational returns are generally subject to examination for three years after the later of the due date or date of filing. As a result, the Foundation is no longer subject to income tax examinations by tax authorities for years prior to 2016.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the programs, management and general supporting services, and fundraising categories based on head counts, time and effort spent, and other methods. Costs are allocated based on evaluations of the related activities into four functional categories as follows:

Grants and Program Services: Grants and program services represent amounts awarded to various not-for-profit organizations and/or fiscal sponsorships to assist with funding of general operations or specific programs.

Educational Support: Educational support includes activities to educate current donors, affiliated professional advisors, and the local community on philanthropic issues and opportunities. This education process involves researching and disseminating information about the not-for-profit community and educating others on methods to leverage resources more effectively.

Supporting Services and Administrative: General and administrative costs include activities which are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation. General and administrative expenses include oversight, business management, general record keeping, budgeting, financing, and other similar activities.

Fundraising: Fundraising includes development costs as well as the cost of special events. Development costs include activities which involve inducing potential donors to contribute money, securities, other assets, or time. They include publicizing and conducting fundraising campaigns, maintaining donor mailing lists, and other similar activities. Special event expenses include the costs of direct benefits to donors attending various special events hosted by the Foundation.

Concentration of Credit Risk

The Foundation places its cash, cash equivalents, short-term funds, and marketable securities with high credit quality financial institutions which, at times, may exceed federally insured limits. The Foundation has not experienced any losses on such accounts.

The majority of the Foundation's donors are located in Dallas, Texas and the surrounding areas. In 2018, the Foundation received contributions from five donors totaling approximately $12,700,000 (21% of total contribution revenue).

The Foundation's grants payable reflected in the consolidated statement of financial position are primarily due to three funds with outstanding commitments representing approximately 56% of gross grants payable at December 31, 2018.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant Estimates

Estimates that are particularly susceptible to significant change include the valuation of investments, interest in irrevocable trusts, and pledges receivable. Investments and interest in irrevocable trusts in general are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these assets, it is reasonably possible that changes in the values of investments and interest in irrevocable trusts will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position. Significant fluctuations in fair values could occur from year to year, and the amounts the Foundation will ultimately realize could differ materially. Management's estimate of pledges receivable is based on consideration of all relevant available information and an analysis of the collectability of individual contributions, which arise primarily from pledges and estates at the financial statement date.

Fair Value Measurements

The Foundation follows FASB ASC Topic 820, *Fair Value Measurements*, which provides the framework for measuring fair value. FASB ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes.

Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

Assets measured at NAV: Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient, which is a reasonable estimate of fair value, have not been classified in the fair value hierarchy. The fair value amounts are presented to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

The three-tier hierarchy of inputs is summarized in the three broad levels listed as follows:

Level 1 inputs: Quoted prices are available in active markets that the Organization has the ability to access for identical investments as of the reporting date, without adjustment. The types of investments in Level 1 include listed equities held in the name of the Organization.

Level 2 inputs: Other significant observable inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices of identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means; and
- If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 inputs: Significant unobservable inputs. Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. Investments that are included in this category generally include privately held investments and securities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given asset or liability is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Financial assets and liabilities carried at fair value on a recurring basis include investments, interest in irrevocable trusts, and the liability for agency transfers.

Note 3. Investments

Investments are stated at fair value and consisted of the following as of December 31, 2018:

Investments		
Cash and short-term funds	$	9,474,716
Certificates of deposit		1,414,071
Common and preferred stocks		24,431,739
U.S. Treasury notes		36,956,031
U.S. Government sponsored enterprise		103,911
Corporate bonds		2,947,889
Mutual funds		110,639,350
Non-marketable securities		174,478,413
Total investments	$	360,446,120

Investment income consisted of the following for the year ended December 31, 2018:

Interest and dividends	$	6,763,641
Beneficial interest distributions		1,398,540
		8,162,181
Less: interest and dividends on assets held for others		(354,209)
Total investment income	$	7,807,972
Net realized gains on investments	$	2,575,710
Net unrealized losses on investments		(56,389,935)
Less: external and direct investment expenses		(643,795)
		(54,458,020)
Add: realized and unrealized losses on assets held for others, net		(888,410)
Total realized and unrealized losses	$	(55,346,430)

Note 4. Fair Value Measurements

The following methods and assumptions were used to estimate the fair value of assets and liabilities in the consolidated financial statements and to determine the resulting classification within the fair value hierarchy.

Cash and Cash Equivalents

Cash and cash equivalents are stated at fair value based on quoted market prices and accordingly are classified as Level 1 in the fair value hierarchy.

Investments

All of the Foundation's marketable securities are valued by the custodian, broker, or the fund/account manager using nationally recognized third party pricing services. The Foundation gives highest priority to quoted prices in active markets for identical assets accessed at the measurement date and classifies all such assets as Level 1. The Foundation gives a Level 2 priority to valuation prices where the valuation process involves inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. The values provided by the pricing services use the market approach and the income approach. Observable Level 2 inputs under the market approach include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there is not sufficient activity, and/or where price quotations vary substantially either over time or among market makers, or in which little information is released publicly. Mid-market pricing or other pricing conventions may be used for fair value measurements within a bid-ask spread. Observable Level 2 inputs under the income approach include commonly quoted interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates.

Interests in Irrevocable Trusts

The Foundation maintains interests in Charitable Lead Trusts, Charitable Remainder Trusts, and Perpetual Trusts. These Trusts have various investment mixes and various level investments. The Foundation values these investments based on the valuation of the custodian of the Trust and then applying the Foundation's contractual allocation of the investments in the underlying trusts. Due to the significant and unobservable nature of the key inputs, the measurement is classified as Level 3 in the fair value hierarchy.

Real Estate and Mineral Interests

The assets are carried at fair value using the income approach. Real estate is valued using discounted cash flows from related leases and mineral interests are valued using a multiple of related revenues. Due to the significance and unobservable nature of key inputs, the measurement is classified as Level 3 in the fair value hierarchy.

Assets Held for Others

The liability is carried at fair value as determined using the income approach. Fair value is based on the fair value of the cash and investment assets held by the Foundation for the benefit of the recipient agencies; however, as there is no market for similar liabilities, the key input is the future cash flow obligations to the recipients. The specific assets held have been classified within the hierarchy for investment (as discussed above). The assets held for others are directly offset by a corresponding liability for the full amount of the assets held.

The related and associated liability is classified as Level 3 in the hierarchy as there is no market for a similar liability and principal input (i.e., fair value of future cash flows to recipients is based on the fair market value of the assets in the portfolio and management's allocation for shares in the pool) are unobservable and significant to the overall fair value measurement.

Assets and liabilities measured at fair value on a recurring basis are classified within the fair value hierarchy at December 31, 2018 as follows:

	NAV	Level 1	Level 2	Level 3	Total
ASSETS					
Cash and cash equivalents	$ -	$ 5,298,629	$ -	$ -	$ 5,298,629
INVESTMENTS					
Marketable securities					
Cash and short-term funds	$ -	$ 9,474,716	$ -	$ -	$ 9,474,716
Common and preferred stocks - domestic	-	22,804,538	-	-	22,804,538
Common and preferred stocks - foreign	-	1,627,201	-	-	1,627,201
U.S. Treasury notes	-	-	36,956,031	-	36,956,031
U.S. Government sponsored enterprise	-	-	103,911	-	103,911
Corporate bonds	-	-	2,947,889	-	2,947,889
Mutual funds					
Fixed income funds					
Index funds	-	36,591,432	-	-	36,591,432
Government, agency, corporate obligations	-	6,146,343	-	-	6,146,343
Other	-	30,049	-	-	30,049
Equity funds					
Index funds	-	66,584,828	-	-	66,584,828
Other	-	1,286,698	-	-	1,286,698
	-	144,545,805	40,007,831	-	184,553,636
Certificate of deposits	-	-	-	-	1,414,071
Non-marketable securities					
Common funds, hedge funds and limited partnership					
Energy funds	84,160	-	-	-	84,160
Equity funds	3,612,983	-	-	-	3,612,983
Fixed income funds	1,648,393	-	-	-	1,648,393
REIT	206,075	-	-	-	206,075
Funds of funds	-	-	1,282,316	-	1,282,316
Income funds	1,131,005	-	-	-	1,131,005
Stock held in private company	-	-	-	15,243,628	15,243,628
Collateralized loan obligations	-	-	-	65,800,000	65,800,000
Other limited partnerships	-	-	-	85,469,853	85,469,853
	6,682,616	-	1,282,316	166,513,481	174,478,413
Total investments	$ 6,682,616	$144,545,805	$ 41,290,147	$166,513,481	$ 360,446,120
Interests in irrevocable trusts	$ -	$ -	$ -	$ 39,220,212	$ 39,220,212
Real estate and mineral interests	$ -	$ -	$ -	$ 6,898,855	$ 6,898,855
	$ 6,682,616	$149,844,434	$ 41,290,147	$212,632,548	$ 411,863,816
LIABILITIES					
Assets held for others	$ -	$ -	$ -	$ (13,829,474)	$ (13,829,474)

The following tables summarize the changes in the fair value of the Foundation's Level 3 financial assets and liabilities:

	Stock Held in Private Company	Collateralized Loan Obligations	Other Limited Partnerships
Balance at December 31, 2017	$ 15,243,628	$ 78,000,000	$ 116,695,602
Net unrealized losses	-	(8,409,455)	(30,331,273)
Distributions	-	(3,790,545)	(894,476)
Balance at December 31, 2018	$ 15,243,628	$ 65,800,000	$ 85,469,853

	Assets		Liabilities
	Interests in Irrevocable Trusts	Real Estate and Mineral Interests	Liability for Assets Held for Others
Balance at January 1, 2017	$ 32,539,483	$ 2,048,647	$ 13,843,733
Investment income	-	185,015	354,209
Net realized gains	-	-	110,559
Net unrealized gains (losses)	4,192,914	279,693	(998,969)
Change in value of interests in irrevocable trusts	790,059	-	-
Amortization	1,957,654	-	-
Administrative and other fees	-	-	(168,404)
Grants payments	-	-	(530,224)
Distributions	(259,898)	-	-
Contributions	-	4,385,500	1,218,570
Balance at December 31, 2018	$ 39,220,212	$ 6,898,855	$ 13,829,474

The summary of changes in fair value of Level 3 assets and liabilities has been prepared to reflect the same categories as those used in the statement of activities and cash flows, except (1) net realized gains and net unrealized gains (losses) presented above are combined in the consolidated statement of activities as net investment realized/unrealized losses and (2) although the liability for assets held for others has been prepared to reflect the same categories as those used in the consolidated statement of activities, none of this activity is included in the change in net assets, except administrative and other fees which increase net assets and decrease the liability for assets held for others.

The Foundation's investments in certain entities that calculate net asset value per share include the following at December 31, 2018:

		Fair Value	Redemption or Liquidity	Days Notice
Energy funds	$	84,160	Monthly	10
Equity funds - other		1,742,497	Daily	1-3
Equity funds - global		1,870,486	Weekly	1-3
Fixed income funds		1,267,303	Daily	1-3
Fixed income funds - global		381,090	Weekly	1-3
REIT		206,075	Daily	1
Income funds		1,131,005	Daily	1-3
	$	6,682,616		

At December 31, 2018, the Foundation had no remaining lock-up periods or unfunded commitments for any of its investments. A summary of the significant investment strategies and additional relevant information for investments carried at NAV are summarized as follows:

Energy funds: There are two funds in this classification, and both invest substantially all of their assets in a master fund. The master funds seek to achieve capital appreciation through speculative trading, directly or indirectly, in energy related commodity interests, including commodity futures and commodity option contracts traded on United States exchanges, and certain foreign exchanges, and swaps.

Equity funds – other: This class seeks to provide long-term capital growth through investment in primarily domestic companies with market capitalization ranging from $100 million to $15 billion.

Equity funds – global: The class seeks to achieve capital appreciation through investment in companies primarily headquartered in emerging markets and through exposure to international stock markets.

Fixed income funds: This class seeks to maximize total investment return through investment in intermediate to high yield bond portfolios.

Fixed income funds – global: This class seeks to capture interest income and generate principal growth through capital appreciation by investing in a portfolio of sovereign debt and currencies of non-U.S. countries and investment and non-investment grade corporate bonds.

REIT: This class seeks to provide long term capital appreciation with a high level of current income by investing in exchange traded REITs, with capitalization of at least $100 million and low debt, and other real estate related securities.

Income funds: This class seeks to provide a high level of current income through investment in dividend-paying common stocks, preferred stocks, convertibles securities, partnerships, trusts, and selected debt instruments.

The following table summarizes the valuation techniques and significant unobservable inputs used for the Foundation's assets and liabilities that are categorized within Level 3 of the fair value hierarchy at December 31, 2018:

Investment Type	Fair Value	Valuation Techniques	Unobservable Input [c]	Range of Inputs (Weighted Averages)
Stock held in private company	$ 15,243,628	Asset-based approach	Discount for lack of marketability [a] Discount for lack of control [a]	0%-30% (19%) 0%-15% (10%)
Interests in irrevocable trusts	$ 39,220,212	Discounted cash flows and Income approach [c]	Discount rate [a] Expected rate of return [b]	0%-6% (0%-6%) 8.5%-10% (8.7%)

[a] Represents amounts used when the Foundation has determined that market participants would take into account these discounts when pricing the investments.

[b] Represents the amounts used when the Foundation has determined that market participants would take into account these returns when pricing the investments.

[c] Fair value of the asset/liability is the expected future cash inflows/outflows, which are based on the fair value of the underlying investment assets, and at this time, management believes no discounts to the fair value are appropriate.

Approximately $158,000,000 and $14,000,000 of level 3 investment assets and liabilities, respectively, have been valued based on the use of specialist, audited reports, agreed upon procedures, and other valuation techniques that are not reported in the above table as no discounting was required related to valuation approach.

Note 5. Liquidity and Funds Available

The Foundation's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, are as follows:

Cash and cash equivalents	$ 5,289,629
Investments	360,446,120
Contributions receivable, net	7,685,492
Interests in irrevocable trusts	39,220,212
Real estate and mineral interests	6,898,855
Total financial assets, year end	419,540,308
Less	
Contributions receivable, long term	1,514,217
Real estate and mineral interests	6,898,855
Other illiquid assets	17,162,859
Interests in irrevocable trusts	39,220,212
Perpetual Endowment assets not in irrevocable trusts	6,287,949
Board designated funds functioning as Endowments	14,098,743
All remaining Endowment funds	54,237,700
Agency funds	13,829,474
Donor objective funds	97,814,259
Supporting organizations	138,600,536
Total financial assets not available to be used within one year	389,664,804
Total financial assets available to meet general expenditures within one year	$ 29,875,504

Donor objective funds represent funds for which the Foundation has variance power and therefore are classified as net assets without donor restrictions. However, these types of funds have associated donor wishes. The balance represents funds for fiscal sponsorships, donor advised funds as well as other funds with charitable intent.

Agency funds represent assets from a nonprofit resource provider to the Foundation for the benefit of the resource provider and/or its affiliates. These assets are considered as assets held for others.

Supporting organizations assets relate to the assets of the Foundation's affiliates which are consolidated in this financial statement. The financial assets related to these types of funds are not considered to be available to meet the general expenditures of the Foundation.

Note 6. Contributions Receivable

Contributions receivable consists of unconditional promises to give to the Organization in the future and are recorded at their estimated fair value. Contributions receivable are summarized as follows at December 31, 2018:

Contributions receivable due in less than one year	$ 6,381,653
Contributions receivable due in one to five years	1,514,217
Gross contributions receivable	7,895,870
Less: allowance for uncollectible pledges	(133,925)
Less: discount on contributions receivable	(76,453)
Contributions receivable, net	$ 7,685,492

Note 7. Property and Equipment

Property and equipment are summarized as follows at December 31, 2018:

Furniture and fixtures	$ 199,328
Equipment	73,024
Software	126,836
Leasehold improvements	9,420
	408,608
Less: accumulated depreciation	(267,365)
	$ 141,243

Depreciation expense for the year ended December 31, 2018 was $36,777.

Note 8. Grants and Program Services Payable

Grants and program services payable consist of unconditional amounts awarded, but not paid, to various not-for-profit organizations or vendors on their behalf. Unconditional grants and program services payable are summarized as follows at December 31, 2018:

Grants and program services payable	
in less than one year	$ 7,315,290
in one to five years	9,688,808
Gross grants and program services payable	17,004,098
Less discount to net present value	(957,478)
Grants and program services payable, net	$ 16,046,620

For the year ending December 31, 2018, grants and program services payable beyond one year are reported at the present value of their estimated future cash flows using a discount rate of 4.0%.

Note 9. Assets Held for Others

The Foundation follows the ASC guidance for *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 the 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. This guidance specifically requires that if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself or one of its affiliated organizations as the beneficiary of that fund, the community foundation must account for the transfer of such assets and the activity associated with those assets as a liability.

The Foundation maintains variance power, as described in the governing documents of the Foundation, and legal ownership over these funds and, as such, continues to report the funds as assets of the Foundation. Variance power assures donors that if the charitable purpose of their contribution becomes impractical or impossible, the distributions will be directed to similar purposes in the community. At December 31, 2018, the consolidated statement of financial position includes a liability for agency transfers at the fair value of the assets held for the benefit of not-for-profit organizations in the amount of $13,829,474.

Note 10. Net Assets

Net assets restricted in perpetuity at December 31, 2018 are designated for the following purposes:

Community competitive grants	$	14,051,764
Phlanthropic education programs		60,000
Arts and education		5,239,949
Religious support		988,000
Social services		16,840,819
	$	37,180,532

Time and purpose restricted net assets restricted for beneficial interests in charitable lead trusts consist of the following at December 31, 2018:

Time restrictions	$	14,867,040
Subject to expenditure for specified purpose		8,631,099
Beneficial interests in charitable lead trusts		722,934
	$	24,221,073

Net assets without donor restrictions consist of the following at December 31, 2018:

Undesignated	$	766,067
Board designated		15,524,431
Donor objectives		170,721,160
Supporting organizations		138,600,536
	$	325,612,194

Net assets were released from restrictions by incurring expenses to satisfy the following purpose restrictions or by the passage of time during the year ended December 31, 2018:

Time restrictions	$	9,790,064
Purpose restrictions		1,018,960
Beneficial interests in charitable lead trusts		323,050
	$	11,132,074

Note 11. Endowment Disclosures

Endowment net asset composition by type of fund is as follows at December 31, 2018:

Net assets without donor restrictions	$ 63,330,276
Net assets with donor restrictions	17,343,145
Net assets with donor restrictions in perpetuity	37,180,532
Total endowment funds	$ 117,853,953

Changes in endowment net assets are as follows as of December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	With Donor Restrictions in Perpetuity	Total
Endowment net assets, beginning of year as restated	$ 58,016,933	$ 24,211,636	$ 31,202,781	$ 113,431,350
Investment return, net	(2,741,488)	(247,715)	6,080,361	3,091,158
Contributions	3,812,290	1,567,783	60,000	5,440,073
Appropriation of endowment assets for expenditures	3,911,276	(8,188,559)	-	(4,277,283)
Other changes:				
Transfer to affiliated accounts	331,265	-	(162,610)	168,655
Endowment net assets, end of year	$ 63,330,276	$ 17,343,145	$ 37,180,532	$ 117,853,953

Return Objectives and Risk Parameters, Strategies Employed for Achieving Objectives, and Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve these objectives.

Generally, the Foundation follows a spending policy of 5% of total assets calculated over twelve-quarters, which based on the expected rate of return is designed to ensure preservation of capital. The investment policy establishes an achievable long-term return objective through diversification of asset classes.

To achieve its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Note 12. Employee Benefit Plan

The Foundation has a defined contribution plan (the Plan) under Section 401(k) of the Internal Revenue Code (IRC), which covers all eligible employees. Employees may contribute up to 100% of their compensation to the Plan, but not to exceed the annual limit set by the Internal Revenue Service. The Foundation's contributions are voluntary and at the discretion of the Board. The Foundation contributed $60,000 to the Plan in 2018.

Note 13. Commitments and Contingencies

The Foundation may become subject to various claims and legal proceedings covering a wide range of matters that may arise in the ordinary course of operations. In the opinion of management, settlement of such matters, if any, will not have a material adverse effect on the Foundation's consolidated financial statements.

The Foundation has a lease for its primary office space and various equipment leases. The lease for its primary office expires July 31, 2021, and the Foundation has the option to renew the lease for two additional periods of sixty months each. Under the terms of the new lease agreement, the base monthly rental expense is $24,193 as well as additional amounts for the Foundation's proportional share of building and maintenance expenses.

In 2017, the Foundation entered into a lease for certain office equipment. The lease calls for monthly payments of $1,189 and expires October 31, 2022.

The following is a schedule of future minimum lease payments under the operating non-cancelable leases at December 31, 2018:

Year ending December 31,		
2019	$	304,582
2020		304,582
2021		183,618
2022		11,890
Total minimum lease payments	$	804,672

Rental expense under these operating leases for the year ended December 31, 2018 was $305,183.

In addition, the Foundation recognized in kind rent for two of its funds. The total in kind rental expense amount for the year ended December 31, 2018 is approximately $216,000.

Note 14. Restatement

In connection with the audit of the Foundation's financial statements for the year ended December 31, 2018, it was determined that the net assets as of December 31, 2017 as previously reported had been understated by $18,728,132. Accordingly, net assets as of December 31, 2017 have been restated. The restatement had no effect on previously reported cash and cash equivalents or investments.

The following summarizes the adjustments to previously reported December 31, 2017 net assets as shown on the statement of activities:

Net assets without donor restrictions, beginning of year	$ 372,920,635
Net assets with donor restrictions, beginning of year	48,634,679
Total net assets, beginning of year	421,555,314
Adjustments to prior year related to errors in the following areas:	
Assets held for others	20,241,900
Property and equipment, net	(1,518,027)
Interests in irrevocable trusts	660,059
Contributions receivable, net	(230,800)
Real estate and mineral interests	(425,000)
Total adjustments	18,728,132
Reclassification between with and without donor restrictions	14,432,728
Net assets without donor restrictions, beginning of year as restated	375,625,397
Net assets with donor restrictions, beginning of year as restated	64,658,049
Total net assets, beginning of year as restated	$ 440,283,446

Note 15. Subsequent Events

Management has evaluated subsequent events through September 30, 2019, the date the consolidated financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.