# THE DALLAS FOUNDATION

## CONSOLIDATED FINANCIAL REPORT

## DECEMBER 31, 2015

# C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

Board of Governors
The Dallas Foundation
Dallas, Texas

We have audited the accompanying consolidated financial statements of The Dallas Foundation (the Foundation), which are comprised of the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years 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 these 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 these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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.

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL
WEAVER AND TIDWELL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS
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**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Dallas Foundation as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Weaver and Tidwell L.L.P.
WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
August 15, 2016

**THE DALLAS FOUNDATION**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSTION**
**DECEMBER 31, 2015 AND 2014**

| ASSETS | 2015 | 2014 |
|---|---|---|
| Cash and cash equivalents | $ 430,308 | $ 501,085 |
| Investments | 252,481,508 | 252,111,525 |
| Contributions receivable, net | 1,714,660 | 6,314,351 |
| Beneficial interest trusts | 25,380,617 | 23,541,104 |
| Prepaid expenses and other receivables | 319,264 | 164,062 |
| Real estate and mineral interests | 2,433,480 | 2,679,839 |
| Property and equipment, net | 1,226,849 | 49,051 |
| **TOTAL ASSETS** | $ 283,986,686 | $ 285,361,017 |
| **LIABILITIES AND NET ASSETS** | | |
| **LIABILITIES** | | |
| Accounts payable and other liabilities | $ 1,022,276 | $ 486,275 |
| Grants and program services payable, net | 5,901,019 | 4,645,123 |
| Assets held for others | 30,234,752 | 33,718,762 |
| **Total liabilities** | 37,158,047 | 38,850,160 |
| **NET ASSETS** | | |
| Unrestricted | 219,768,598 | 217,735,520 |
| Temporarily restricted | 3,177,882 | 6,890,383 |
| Permanently restricted | 23,882,159 | 21,884,954 |
| **Total net assets** | 246,828,639 | 246,510,857 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 283,986,686 | $ 285,361,017 |

The Notes to the Consolidated Financial Statements
are an integral part of these statements.

# THE DALLAS FOUNDATION
# CONSOLIDATED STATEMENTS OF ACTIVITIES
# YEARS ENDED DECEMBER 31, 2015 AND 2014

| | Year ended December 31, 2015 | | | | Year ended December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **REVENUES AND SUPPORT** | | | | | | | | |
| Donor contributions | $ 68,135,772 | $ 2,793,010 | $ 326,891 | $ 71,255,673 | $ 46,468,668 | $ 8,212,670 | $ - | $ 54,681,338 |
| Less: Amounts raised or received on behalf of others | (10,972,669) | (548,389) | (9,470) | (11,530,528) | (13,784,783) | (164,000) | - | (13,948,783) |
| **Net contributions** | 57,163,103 | 2,244,621 | 317,421 | 59,725,145 | 32,683,885 | 8,048,670 | - | 40,732,555 |
| Provision for uncollectible pledges | - | (1,659,590) | - | (1,659,590) | - | (8,148) | - | (8,148) |
| Less: Provision on assets held for others | - | 120,000 | - | 120,000 | - | - | - | - |
| Dividends and interest income | 3,819,308 | - | - | 3,819,308 | 4,109,337 | - | - | 4,109,337 |
| Less: Dividends and interest income on assets held for others | (431,087) | - | - | (431,087) | (469,376) | - | - | (469,376) |
| Dividends and interest income | 3,388,221 | - | - | 3,388,221 | 3,639,961 | - | - | 3,639,961 |
| Total investment realized / unrealized (losses) gains | (19,448,110) | - | - | (19,448,110) | 8,303,776 | - | - | 8,303,776 |
| Less: Investment losses (gains) on assets held for others | 584,434 | - | - | 584,434 | (376,845) | - | - | (376,845) |
| Investment realized / unrealized (losses) gains, net | (18,863,676) | - | - | (18,863,676) | 7,926,931 | - | - | 7,926,931 |
| Beneficial interest trusts income | 3,348,323 | (4,161,528) | 1,679,784 | 866,579 | 1,039,646 | 109,423 | (1,578,570) | (429,501) |
| Rental, royalty, and other income | 398,789 | - | - | 398,789 | 582,684 | - | - | 582,684 |
| Net assets released from restrictions | 256,004 | (256,004) | - | - | 4,258,193 | (4,258,193) | - | - |
| **TOTAL REVENUES AND SUPPORT** | 45,690,764 | (3,712,501) | 1,997,205 | 43,975,468 | 50,131,300 | 3,891,752 | (1,578,570) | 52,444,482 |
| **EXPENSES AND DISTRIBUTIONS** | | | | | | | | |
| Total grants and program services | 55,340,105 | - | - | 55,340,105 | 62,535,505 | - | - | 62,535,505 |
| Less: Grants on assets held for others | (14,772,919) | - | - | (14,772,919) | (18,317,654) | - | - | (18,317,654) |
| **Grants and program services** | 40,567,186 | - | - | 40,567,186 | 44,217,851 | - | - | 44,217,851 |
| Educational support | 738,423 | - | - | 738,423 | 599,728 | - | - | 599,728 |
| Supporting services and administrative | 1,644,410 | - | - | 1,644,410 | 1,182,339 | - | - | 1,182,339 |
| Fundraising | 707,667 | - | - | 707,667 | 521,357 | | | 521,357 |
| **TOTAL EXPENSES AND DISTRIBUTIONS** | 43,657,686 | - | - | 43,657,686 | 46,521,275 | - | - | 46,521,275 |
| **CHANGE IN NET ASSETS** | 2,033,078 | (3,712,501) | 1,997,205 | 317,782 | 3,610,025 | 3,891,752 | (1,578,570) | 5,923,207 |
| **NET ASSETS AT BEGINNING OF YEAR** | 217,735,520 | 6,890,383 | 21,884,954 | 246,510,857 | 232,684,561 | 2,998,631 | 23,463,524 | 259,146,716 |
| Assets held for others reclassification | - | - | - | - | (18,559,066) | - | - | (18,559,066) |
| **NET ASSETS AT END OF YEAR** | $ 219,768,598 | $ 3,177,882 | $ 23,882,159 | $ 246,828,639 | $ 217,735,520 | $ 6,890,383 | $ 21,884,954 | $ 246,510,857 |

The Notes to the Consolidated Financial Statements are an integral part of these statements.

# THE DALLAS FOUNDATION
# CONSOLIDATED STATEMENTS OF CASH FLOWS
# DECEMBER 31, 2015 AND 2014

| | 2015 | 2014 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ 317,782 | $ 5,923,207 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Non-cash contributions | (8,632,712) | (10,862,185) |
| Proceeds from sales of donated financial assets | 8,890,592 | 10,840,383 |
| Realized and unrealized losses (gains) on investments | 18,863,676 | (7,926,931) |
| Realized and unrealized (gains) losses on beneficial interest trusts | (1,565,423) | 1,762,588 |
| Depreciation expense | 23,903 | 13,668 |
| Discount amortization | (95,735) | (67,698) |
| Changes in operating assets and liabilities: | | |
| Contributions receivables | 4,599,691 | (3,284,554) |
| Prepaid expenses and other receivables | (155,202) | (47,989) |
| Accounts payable and other liabilities | 536,001 | (606,910) |
| Grants and program services payable | 1,351,631 | (1,086,799) |
| Assets held for others | (3,484,010) | 15,036,415 |
| **Net cash provided by operating activities** | 20,650,194 | 9,693,195 |
| **INVESTING ACTIVITIES** | | |
| Purchases of investments | (89,868,707) | (58,790,678) |
| Proceeds from sales and maturities on investments | 70,349,437 | 49,312,298 |
| Purchases of property and equipment | (1,201,701) | - |
| **Net cash provided by (used in) investing activities** | (20,720,971) | (9,478,380) |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | (70,777) | 214,815 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 501,085 | 286,270 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | $ 430,308 | $ 501,085 |
| **SUMMARY OF NONCASH ACTIVITIES** | | |
| Donated goods and services | $ 25,185 | $ 83,254 |
| Non-cash contributions of stock and other investments | $ 8,632,712 | $ 10,862,185 |

The Notes to the Consolidated Financial Statements are an integral part of these statements.

# THE DALLAS FOUNDATION
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. NATURE OF OPERATIONS

The Dallas Foundation (the Foundation or Organization) is a community foundation that supports local nonprofit agencies. The Foundation provides donors the ability to establish funds with specific charitable goals, guidance in developing an effective grant-making plan, and various other services to assist them in giving to the community. The Foundation awards grants which benefit arts and humanities, education, health, social services, and general community service primarily in Dallas County, Texas.

## 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, and cash flows of the Foundation and its three affiliate 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.

### 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 Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 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 three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. 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:

<u>Unrestricted</u> - Net assets that are not subject to donor-imposed restrictions. FASB ASC Topic and its interpretations provide that if the governing body of the organization has the ability to remove a donor restriction (i.e., variance power), the contribution should be classified as unrestricted. Under the terms of certain gift instruments, the assets are held and invested in a manner similar to endowment funds; however, the Board of Governors has the authority, if it deems it prudent and appropriate to expend the entirety of the principal or appreciation.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Basis of Presentation – Continued

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 Foundation's Board of Governors, 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 unrestricted net assets in the consolidated financial statements.

Temporarily Restricted - Net assets subject to donor-imposed restrictions that will be met either by actions of the Foundation or the passage of time. 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 temporarily restricted net assets. These assets are released from their implicit time restriction when the cash (or other assets) is collected.

Permanently Restricted - Net assets subject to donor-imposed restrictions to be maintained permanently. Net assets and related activity from perpetual trusts, whereby the Foundation has a beneficial interest in a stream of income in perpetuity, are recorded as permanently restricted net assets.

Although the Foundation's mission is to build endowed assets, the Foundation has "variance power" as stated in its Articles of Incorporation. Variance power is the ability to modify any restriction or condition on the distribution of assets, if circumstances warrant. As a result of the ability to distribute corpus, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for consolidated financial statement purposes.

The state of Texas has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and the Board of Governors, 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 all contributions are subject to the terms of these governing documents.

Under the terms of the Foundation's governing documents, the Board of Governors (the Board) has the ability to distribute so much of 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 unrestricted net assets for financial statement purposes.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Basis of Presentation – Continued

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 financial statements (see Note 8).

### Revenue and Expenses

Contribution revenue is reported as an increase in unrestricted net assets unless use of the related asset is limited by a donor-imposed time restriction. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets 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.

### 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

Contributions received (including unconditional promises to give) are recorded as unrestricted, temporarily restricted, or permanently 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Contributions initially restricted by donor stipulation and for which the restriction will be satisfied in the same year are recorded as temporarily restricted and then released from restriction. 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 unrestricted net assets in the reporting period in which the support is recognized.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Contributions – Continued

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 determined using the discounted present value of estimated future cash flows technique using a discounted rate commensurate with the risks involved. The resulting discount is amortized and reported as temporarily 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 $59,000 and $35,000 for the years ended December 31, 2015 and 2014, respectively. Such amounts will be written-off if and when 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 temporarily restricted and permanently restricted net assets is 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 approximately $25,000 and $83,000 of donated services for advertisements and legal services in the years ended December 31, 2015 and 2014, respectively. Such donated services are included in unrestricted contributions revenue and general and administrative expense.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### 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.

The Foundation has designated all of its investments as trading.

Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value.

Other real estate is carried at the lower of cost or fair value. Fair value is determined through valuation techniques using Level 2 inputs.

### Investment Income

Investment income includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value and realized gains and losses on other investments. Interest income is recorded when earned and dividends are recorded on the ex-dividend date.

Investment income and realized gains and losses in permanently restricted net assets are reported as increases in temporarily 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 recorded as temporarily restricted and then released from restriction. Other investment return is reflected in the accompanying consolidated statement of activities as unrestricted.

### Investment Valuation

Investments are comprised of certificates of deposit, mutual funds, common and preferred stock, U.S. treasuries, and corporate bonds. 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.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Investment Valuation – Continued

Investments for which observable market prices in active markets do not exist are reported at fair value, as determined in good faith by the Foundation's management. The valuations of limited partnership investments include assumptions and methods that were prepared by the general partners of the limited partnerships and were reviewed by the Foundation's management.

Real property values are initially based on independent appraisals discounted for estimated selling costs, which are updated every five years. 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 amortized cost and approximate 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 net asset value 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 $9,579,774 and $10,356,601 of investments that are reported at net asset value at December 31, 2015 and 2014, respectively. For these investments, the Foundation has concluded that the net asset value reported by the underlying fund is a practical expedient to estimating fair value.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Investment Valuation – Continued

The amounts reported at net asset value at December 31, 2015 are redeemable with the fund at net asset value under the original terms of the partnership agreements and/or subscription agreements and operations of the-underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the Foundation's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if the Foundation were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

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. Investments sold are recorded at amount received.

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 of Governors review the investment policy and recommend changes when necessary.

### Beneficial Interest 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 permanently restricted net assets.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Beneficial Interest Trusts – Continued

Distributions received from these trusts are recorded as unrestricted investment income, and changes in the market value are recorded as a permanently restricted change in value of beneficial interests in perpetual trusts in the consolidated statements of activities. Beneficial interest in perpetual trusts totaled $24,017,395 and $21,884,954 as of December 31, 2015 and 2014, respectively, and are included in beneficial interest trusts on the consolidated statements 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 temporarily restricted and carried at fair value in the consolidated statements 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, 2015 and 2014, and the estimated net investment return of the trust which is estimated at 8.5% to 10.0% at December 31, 2015 and 2014. The trusts will terminate between December 2020 and December 2025. Changes in the fair value of beneficial interests are reflected as temporarily restricted change in value of beneficial interests in charitable lead trusts in the consolidated statements of activities.

### Real Estate and Mineral Interests

Real estate and mineral interests are recorded at fair value. The estimated fair values of real estate and mineral interests are based on periodic qualified appraisals and/or management's best estimate of fair value. Changes in fair value are recognized in net investment gains (losses) in the consolidated statements of activities. Contributions of real estate and mineral interests are recorded at fair market value at the time of donation.

### 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 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.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Property and Equipment – Continued

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 2015 and 2014.

### 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 Foundation's Board. Management has the ability, as permitted by the Board of Governors, to approve certain types of grants which are not ratified by the Board of Governors 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 an adjusted discount rate of at December 31, 2015 and 2014. 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) is a public charity organized under the laws of the State of Delaware and is exempt from federal income tax under Section 501(c)(3) of the Code. Highland is organized to operate exclusively to support and benefit the Foundation (and is classified as a Type 1 supporting organization). Generally, all revenue earned outside the purpose for which the Foundation is 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 years ended December 31, 2015 and 2014, there were no interest or penalties recorded or included in the financial statements.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Income Taxes – Continued

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 2013.

### Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Costs are allocated based on evaluations of the related activities into four functional categories as follows:

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

<u>Educational Support:</u> 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 private resources more effectively.

<u>Supporting Services and Administrative:</u> 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.

<u>Fundraising:</u> 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.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### 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 2015 and 2014, the Foundation received contributions from three donors totaling approximately $27,800,000 (39% of total contribution revenue) and $16,740,000 (36% of total contribution revenue), respectively. Contributions receivable reflected in the consolidated statements of financial position are primarily due from three donors representing 73% of gross contributions receivable and 91% of gross contributions receivable at December 31, 2015 and 2014, respectively.

The Foundation's grants payable reflected in the consolidated statements of financial position are primarily due to five grant recipients representing 61% and 66% of gross grants payable at December 31, 2015 and 2014, respectively. In 2015 and 2014, approximately 22% and 35%, respectively, of grants were awarded to one grant recipient.

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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, beneficial interests in perpetual and charitable lead trusts, and pledges receivable. Investments and beneficial interests 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 beneficial interests will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements 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.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### 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. 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 type 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.
- 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 held in partnership format, and for these the Net Asset Value (“NAV”) as a practical expedient has been used.

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.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Fair Value Measurements – Continued

The Foundation has certain investments which are measured at net asset value per share (NAV). If the Foundation has the ability to redeem its investment with the investee at NAV at the measurement date or within ninety days of the measurement date, the fair value of the investment is categorized as a Level 2 fair value measurement. If the Foundation will never have the ability to redeem its investment with the investee at NAV or the Foundation cannot redeem its investment within ninety days of the measurement date, the fair value of the investment is categorized as a Level 3 fair value measurement.

Financial assets and liabilities carried at fair value on a recurring basis include investments, beneficial interest trusts, and the liability for agency transfers. The Foundation has no assets or liabilities carried at fair value on a non-recurring basis at December 31, 2015 and 2014.

### Reclassifications

Certain amounts in the prior period presented have been reclassified to the current period to conform to the current period financial statement presentation.

## NOTE 3. INVESTMENTS

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

| | 2015 | 2014 |
|---|---|---|
| Investments (at fair value) | | |
| Cash and short-term funds | $ 24,395,514 | $ 5,886,652 |
| Certificates of deposit | 2,033,364 | 2,157,090 |
| Common and preferred stocks | 24,517,266 | 30,430,428 |
| U.S. Treasury notes | 26,002,650 | 34,248,331 |
| U.S. Government sponsored enterprise | 197,877 | 113,630 |
| Corporate bonds | 2,848,533 | 297,104 |
| Municipal bonds | 290,173 | 443,087 |
| Mutual funds | 98,827,503 | 114,870,827 |
| Non-marketable securities | 73,368,628 | 63,664,376 |
| Total investments (at fair value) | $ 252,481,508 | $ 252,111,525 |

## NOTE 3. INVESTMENTS – CONTINUED

Investment income consisted of the following for the years ended December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Interest and dividends | $ 3,819,308 | $ 4,109,337 |
| Perpetual trust distributions | 1,107,903 | 1,039,646 |
| | 4,927,211 | 5,148,983 |
| Less: interest and dividends on assets held for others | 431,087 | 469,376 |
| Total investment income | $ 4,496,124 | $ 4,679,607 |
| Net realized gains on investments | $ 5,690,227 | $ 2,240,201 |
| Net unrealized (losses) gains on investments | (25,138,337) | 6,063,575 |
| | (19,448,110) | 8,303,776 |
| Less: realized and unrealized (losses) gains on assets held for others, net of fees of $12,792 in 2015 and $12,576 in 2014 | (584,434) | 376,845 |
| Total investment (losses) gains, net | $ (18,863,676) | $ 7,926,931 |

Perpetual trust distributions are included in beneficial interest trusts income on the consolidated statements of activities. The total investment management and custody fees are $350,955 and $393,810 for 2015 and 2014. These fees are recognized as support services and administrative expenses in the consolidated statement of activities.

## 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.

## NOTE 4. FAIR VALUE MEASUREMENTS – CONTINUED

### Investments

*Marketable Securities:* 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 isn't 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.

*Non-marketable Securities:* Common funds, hedge funds, and certain limited partnerships are carried at fair value which is based on the net asset value (NAV) per share of the fund as provided by the investment manager, except in certain circumstances, such as when the fund is in liquidation, in which case the investment is valued under the income approach using a discounted cash flow model. The Foundation classifies non-marketable securities carried at NAV as a Level 2 or Level 3 measurement depending upon the timing of the redemption provisions. If the Foundation has the ability to redeem the investment at the stated price within ninety days of the measurement date, the Foundation classifies the input as Level 2. However, if the Foundation cannot redeem the investment within ninety days of the measurement date, the Foundation considers the input as Level 3. Certain limited partnership interests are carried at fair value as determined by management and/or independent appraisal. Due to the use of unobservable key inputs and non-redeemable nature, these limited partnership interests are classified as Level 3.

### Contributions Receivable

The asset is carried at cost net of a discount to present value using a rate which is commensurate with the risks involved on the gift date and an allowance for uncollectible accounts at the financial reporting date. Fair value is the price a market participant would pay to acquire the right to receive the cash flows inherent in the promise to pay the Foundation and due to inclusion of a discount to net present value on the gift date and allowance for uncollectible accounts the carrying value approximates fair value.

## NOTE 4. FAIR VALUE MEASUREMENTS – CONTINUED

### Beneficial Interests in Perpetual and Remainder Trusts

The asset is carried at fair value using the income approach (expected future cash flows) and is based on the fair value of the underlying trust assets adjusted for the Foundation's allocable portion; however, as there is no market for the beneficial interests, the fair value of the assets is used as the practical expedient to fair value. The key inputs include the fair value of the underlying trust assets and, when/if appropriate, a discount rate determined by the Foundation's management. Due to the significant judgment and unobservable nature of determining the future cash flows and discount (if any), the measurement is classified as Level 3 in the fair value hierarchy.

### Beneficial Interests in Charitable Lead Trusts

The asset is carried at fair value using the income approach (discounted cash flows) and is based on the present value of the amounts which the Foundation expects to receive over the term of the agreements using a discount rate that reflects assumptions that are consistent with those inherent in determining the cash flows. The key inputs include the fair value of the underlying trust assets, projected payout and duration, and projected return on trust assets as determined by the Foundation. Due to the significance 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.

### Other Receivables

The asset's carrying amount approximates fair value due to the short maturity of those amounts.

### Accounts Payable and Other Liabilities

The liabilities' carrying amount approximates fair value due to the short maturity of those amounts.

### Grants and Program Services Payable

The liabilities' carrying amount is based on the discounted value of the expected future cash distributions which approximates fair value.

## NOTE 4. FAIR VALUE MEASUREMENTS – CONTINUED

### 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 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, 2015 as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | $ 430,308 | $ - | $ - | $ 430,308 |
| Investments: | | | | |
| Marketable securities: | | | | |
| Cash and short-term funds | $ 24,395,514 | $ - | $ - | $ 24,395,514 |
| Certificates of deposit | - | 2,033,364 | - | 2,033,364 |
| Common and preferred stocks: | | | | |
| Domestic | 22,384,698 | - | - | 22,384,698 |
| Foreign | 2,132,568 | - | - | 2,132,568 |
| U.S. Treasury notes | 26,002,650 | - | - | 26,002,650 |
| U.S. Government sponsored enterprise | 197,877 | - | - | 197,877 |
| Corporate bonds | 2,848,533 | - | - | 2,848,533 |
| Municipal bonds | - | 290,173 | - | 290,173 |
| Mutual funds: | | | | |
| Fixed income funds: | | | | |
| Index funds | 33,629,806 | - | - | 33,629,806 |
| Government, agency, corporate obligations | 6,245,766 | - | - | 6,245,766 |
| Other | 69,849 | - | - | 69,849 |
| Equity funds: | | | | - |
| Index funds | 56,756,349 | - | - | 56,756,349 |
| Other | 2,125,733 | - | - | 2,125,733 |
| Total marketable securities | 176,789,343 | 2,323,537 | - | 179,112,880 |
| Non-marketable securities: | | | | |
| Common funds, hedge funds and limited partnerships: | | | | |
| Energy funds | - | - | 149,840 | 149,840 |
| Fund of funds | - | 1,107,118 | - | 1,107,118 |
| Future funds | - | - | 332,632 | 332,632 |
| Collateralized loan obligations | - | - | 40,400,000 | 40,400,000 |
| Other limited partnerships | - | - | 31,379,038 | 31,379,038 |
| Total non-marketable investments | - | 1,107,118 | 72,261,510 | 73,368,628 |
| Total investments | $ 176,789,343 | $ 3,430,655 | $ 72,261,510 | $ 252,481,508 |
| Beneficial interests in trusts | $ - | $ - | $ 25,380,617 | $ 25,380,617 |
| Real estate and mineral interests | $ - | $ - | $ 2,433,480 | $ 2,433,480 |
| LIABILITIES | | | | |
| Assets held for others | $ - | $ - | $ 30,234,752 | $ 30,234,752 |

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## NOTE 4. FAIR VALUE MEASUREMENTS – CONTINUED

Assets and liabilities measured at fair value on a recurring basis are classified within the fair value hierarchy at December 31, 2014 as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | $ 501,085 | $ - | $ - | $ 501,085 |
| Investments: | | | | |
| Marketable securities: | | | | |
| Cash and short-term funds | $ 5,886,652 | $ - | $ - | $ 5,886,652 |
| Certificates of deposit | - | 2,157,090 | - | 2,157,090 |
| Common and preferred stocks: | | | | |
| Domestic | 28,892,280 | - | - | 28,892,280 |
| Foreign | 1,538,148 | - | - | 1,538,148 |
| U.S. Treasury notes | 34,248,331 | - | - | 34,248,331 |
| U.S. Government sponsored enterprise | 113,630 | - | - | 113,630 |
| Corporate bonds | - | 297,104 | - | 297,104 |
| Municipal bonds | - | 443,087 | - | 443,087 |
| Mutual funds: | | | | |
| Fixed income funds: | | | | |
| Index funds | 25,669,217 | - | - | 25,669,217 |
| Government, agency, corporate obligations | 6,930,518 | - | - | 6,930,518 |
| Equity funds: | | - | - | |
| Index funds | 80,508,690 | - | - | 80,508,690 |
| Other | 1,762,402 | - | - | 1,762,402 |
| Total marketable securities | 185,549,868 | 2,897,281 | - | 188,447,149 |
| Non-marketable securities: | | | | |
| Common funds, hedge funds and limited partnerships: | | | | |
| Energy funds | - | - | 1,091,231 | 1,091,231 |
| Equity funds | - | 409,588 | - | 409,588 |
| Fixed income funds | - | 7 | - | 7 |
| Fund of funds | - | 1,044,774 | - | 1,044,774 |
| Futures funds | - | - | 372,869 | 372,869 |
| Collateralized loan obligations | - | - | 54,900,000 | 54,900,000 |
| Other limited partnerships | - | - | 5,845,907 | 5,845,907 |
| Total non-marketable investments | - | 1,454,369 | 62,210,007 | 63,664,376 |
| Total investments | $ 185,549,868 | $ 4,351,650 | $ 62,210,007 | $ 252,111,525 |
| Beneficial interests in trusts | $ - | $ - | $ 23,541,104 | $ 23,541,104 |
| Real estate and mineral interests | $ - | $ - | $ 2,679,839 | $ 2,679,839 |
| LIABILITIES | | | | |
| Liability for agency transfers | $ - | $ - | $ 33,718,762 | $ 33,718,762 |

## NOTE 4. FAIR VALUE MEASUREMENTS – CONTINUED

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

| | Assets | | | |
|---|---|---|---|---|
| | Non-marketable Investments | | | |
| | Energy Funds | Futures Funds | Collateralized Loan Obligations | Real Estate and Limited Partnerships |
| Balance at January 1, 2014 | $1,328,665 | $ 335,714 | $ 48,500,000 | $ 2,036,707 |
| Net unrealized gains (losses) - included in earnings | (237,434) | 37,155 | 7,837,225 | - |
| Distributions | - | - | (1,437,225) | - |
| Contributions - included in earnings | - | - | - | 3,809,200 |
| Balance at December 31, 2014 | 1,091,231 | 372,869 | 54,900,000 | 5,845,907 |
| Net realized losses - included in earnings | - | - | - | (80,074) |
| Net unrealized losses - included in earnings | (15,823) | (40,237) | (12,945,200) | (251,463) |
| Distributions | - | - | (1,554,800) | - |
| Contributions - included in earnings | - | - | - | 29,673,868 |
| Sales of investments | (925,568) | (207,598) | - | (3,809,200) |
| Purchases | - | 207,598 | - | - |
| Balance at December 31, 2015 | $ 149,840 | $ 332,632 | $ 40,400,000 | $ 31,379,038 |

| | Assets | | Liabilities |
|---|---|---|---|
| | Beneficial Interest Trusts | Real Estate and Mineral Interest | Liability for Agency Transfers |
| Balance at January 1, 2014 | $ 25,303,692 | $ 2,558,673 | $ 18,682,347 |
| Agency Reclassification | - | - | 18,559,066 |
| Investment income - included in earnings | - | - | 469,376 |
| Net realized gains (losses) - included in earnings | - | - | 167,129 |
| Net unrealized gains (losses) - included in earnings | - | 121,166 | 222,292 |
| Change in value of beneficial interest trusts | (1,762,588) | - | - |
| Transfers | - | - | (34,078) |
| Administrative and other fees | - | - | (469,763) |
| Grant Expense | - | - | (6,832,631) |
| Vendor Payments | - | - | (13,534,632) |
| Contributions | - | - | 16,489,656 |
| Balance at December 31, 2014 | 23,541,104 | 2,679,839 | 33,718,762 |
| Investment income - included in earnings | - | - | 431,087 |
| Net realized gains (losses) - included in earnings | - | - | 931,107 |
| Net unrealized gains (losses) - included in earnings | - | (246,359) | (1,515,541) |
| Change in value of beneficial interest trusts | 1,839,513 | - | - |
| Grants expense | - | - | (5,601,598) |
| Vendor payments | - | - | (9,259,593) |
| Contributions | - | - | 11,530,528 |
| Balance at December 31, 2015 | $ 25,380,617 | $ 2,433,480 | #REF! |

## NOTE 4. FAIR VALUE MEASUREMENTS – CONTINUED

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 statements of activities and cash flows, except (1) net realized and unrealized gains and losses presented above are combined in the consolidated statements of activities as net investment gains (losses) and (2) although the liability for agency transfers has been prepared to reflect the same categories as those used in the consolidated statements of activities for "agency transfers," 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 agency transfers.

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

| | Fair Value | | | |
|---|---|---|---|---|
| | 2015 | 2014 | Redemption or Liquidity | Days Notice |
| Energy funds | $ 149,840 | $ 1,091,231 | Monthly | 10 |
| Equity funds - other | 2,125,733 | 1,762,402 | Daily | One |
| Equity funds - global | 2,236,045 | 2,504,257 | Weekly | 1-3 |
| Fixed income funds | 1,687,470 | 1,600,048 | Daily | One |
| Fixed income funds - global | 345,041 | 380,101 | Weekly | One |
| REIT | - | 12,593 | Daily | One |
| Fund of funds: | | | | |
| Equities - domestic | - | 37,035 | Monthly | 45 |
| Opportunity | 376,325 | 378,163 | Quarterly | 95 |
| Multi-strategy | 730,793 | 661,611 | Quarterly | 95 |
| Future funds | 332,632 | 372,869 | Monthly | 3-10 |
| Income funds | 1,595,896 | 1,556,288 | Daily | One |

At December 31, 2015 and 2014, 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.

## NOTE 4. FAIR VALUE MEASUREMENTS – CONTINUED

*Equity funds*: 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.

*Fund of funds:* This class primarily seeks to achieve absolute returns with minimal risk through investment in a feeder fund in which the related master fund's diversified investment strategies include but are not limited to relative value fundamental equity, fixed income, statistical arbitrage, quantitative strategies, and others.

*Futures funds:* This class seeks to achieve capital appreciation through the speculative trading of futures interests, including commodities, currencies, securities, mortgage-backed obligations, and other financial instruments. The funds may also enter into options on futures and forward contracts.

*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.

## NOTE 4. FAIR VALUE MEASUREMENTS – CONTINUED

The following table summarizes the valuation techniques and significant unobservable inputs used for the Foundation's investments that are categorized within Level 3 of the fair value hierarchy at December 31, 2015 and 2014:

| | Fair Value | | | | |
|---|---|---|---|---|---|
| Investment Type | December 31, 2015 | December 31, 2014 | Valuation Techniques | Unobservable Input ( c ) | Range of Inputs (Weighted Averages) |
| Collateralized loan obligations | $ 40,400,000 | $ 54,900,000 | Asset-based approach | Discount for lack of marketability (a) | 10% (10%) |
| | | | | Discount for lack of control (a) | 5% (5%) |
| Other limited partnerships | 31,379,038 | 5,845,907 | Asset-based approach | Discount for lack of marketability (a)<br>Discount for lack of control (a) | 0%-30% (19%)<br>0%-15% (10%) |
| Engergy funds | 149,839 | 1,091,231 | Asset-based approach | Discount for lack of marketability (a) | 0%-10% (10%) |
| Future funds | 332,632 | 372,869 | Asset-based approach | Discount for lack of marketability (a) | 0%-10% (10%) |
| Beneficial interest trusts | 25,380,617 | 23,541,104 | Income approach (d) and discounted cash flow | Discount rate (a) | 0%-6% (0%-6%) |
| | | | | Expected rate of return (b) | 8.5%-10% (8.7%) |
| Real estate and mineral interest | 2,433,480 | 2,679,839 | Income approach (d) | Revenue multiple (e) | 4 (4)<br>0% (0%) |
| Assets held for others | 30,234,752 | 33,718,762 | Income approach (d) | Discount rate (b) | 0% (0%) |

(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) Significant increases or decreases in any of the unobservable inputs in isolation may result in a significantly lower or higher fair value measurement.

(d) 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.

(e) Represents amounts used when the Foundation has determined that market participants would use such multiples when pricing the investments.

## NOTE 5. 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:

| | 2015 | 2014 |
|---|---|---|
| Contributions receivable due in less than one year | $ 1,364,825 | $ 5,743,065 |
| Contributions receivable due in one to five years | 408,349 | 606,000 |
| Gross contributions receivable | 1,773,174 | 6,349,065 |
| Less: allowance for uncollectible pledges | 58,514 | 34,714 |
| Contributions receivable, net | $ 1,714,660 | $ 6,314,351 |

At December 31, 2015 and 2014, the Foundation has gross pledges receivable of $1,773,174 and $6,349,065, respectively, which includes pledges for which there is a corresponding liability for agency transfers included in the consolidated statements of financial position totaling $361,533 and $1,079,600, respectively.

## NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at December 31:

| | 2015 | 2014 |
|---|---|---|
| Furniture and fixtures | $ 104,893 | $ 104,893 |
| Leasehold Improvements | 9,420 | - |
| Software | 118,420 | 68,920 |
| Equipment | 60,451 | - |
| Construction in progress | 1,152,200 | 60,451 |
| | 1,445,384 | 234,264 |
| Less: Accumulated depreciation | 218,535 | 185,213 |
| | $ 1,226,849 | $ 49,051 |

Depreciation expense for the years ended December 31, 2015 and 2014 was $23,903 and $13,668, respectively.

## NOTE 7. 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:

| | 2015 | 2014 |
|---|---|---|
| Grants and program services payable | | |
| in less than one year | $ 4,580,626 | $ 3,808,021 |
| in one to five years | 1,416,128 | 904,800 |
| Gross grants and program services payable | 5,996,754 | 4,712,821 |
| Less: Discount to net present value | 95,735 | 67,698 |
| Grants and program services payable, net | $ 5,901,019 | $ 4,645,123 |

For the years ending December 31, 2015 and 2014, grants and program services payable beyond one year are reported at the present value of their estimated future cash flows using discount rates ranging from 2.6% to 4.0%.

## NOTE 8. 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, 2015 and 2014, the consolidated statements of financial position include 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 $30,234,752 and $33,718,762, respectively.

## NOTE 9. NET ASSETS

Permanently restricted net assets represent the accumulation of gifts to be invested in perpetuity. The income earned on these investments can be used for the general operation of the Foundation.

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

| | 2015 | 2014 |
|---|---|---|
| Time restrictions | $ 1,814,660 | $ 5,234,233 |
| Beneficial interests in charitable lead trusts | 1,363,222 | 1,656,150 |
| Total | $ 3,177,882 | $ 6,890,383 |

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

| | 2015 | 2014 |
|---|---|---|
| Time restrictions | $ - | $ 4,003,870 |
| Beneficial interests in charitable lead trusts | 256,004 | 254,323 |
| | $ 256,004 | $ 4,258,193 |

## NOTE 10. ENDOWMENT DISCLOSURES

Endowment net asset composition is as follows at December 31:

| | 2015 | 2014 |
|---|---|---|
| Unrestricted | $ 66,802,766 | $ 70,752,409 |
| Temporarily Restricted | - | 4,111,810 |
| Permanently Restricted | 23,882,159 | 21,884,954 |
| Total endowment funds | $ 90,684,925 | $ 96,749,173 |

## NOTE 10. ENDOWMENT DISCLOSURES – CONTINUED

Changes in endowment net assets are as follows:

| | As of December 31, 2015 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | $ 70,752,409 | $ 4,111,810 | $ 21,884,954 | $ 96,749,173 |
| Investment return: | | | | |
| Interest and dividends | 1,677,399 | - | 107,777 | 1,785,176 |
| Rent and royalty income | 359,260 | - | - | 359,260 |
| Net investment (losses) gains | (3,409,640) | - | 981,172 | (2,428,468) |
| Investment fees | (129,221) | - | (66,452) | (195,673) |
| Total investment return | (1,502,202) | - | 1,022,497 | (479,705) |
| Contributions | 267,429 | - | 317,421 | 584,850 |
| Appropriations for expenditure | (3,205,816) | - | - | (3,205,816) |
| Reclassifications | 1,974,733 | (4,111,810) | 657,287 | (1,479,790) |
| Administrative fees | (1,483,787) | - | - | (1,483,787) |
| Endowment net assets, end of year | $ 66,802,766 | $ - | $ 23,882,159 | $ 90,684,925 |

| | As of December 31, 2014 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | $ 44,787,364 | $ 380,333 | $ 23,463,524 | $ 68,631,221 |
| Investment return: | | | | |
| Interest and dividends | 1,827,704 | - | (75) | 1,827,629 |
| Rent and royalty income | 484,139 | - | - | 484,139 |
| Net investment losses | (350,766) | - | (1,604,222) | (1,954,988) |
| Investment fees | (226,626) | - | - | (226,626) |
| Total investment return | 1,734,451 | - | (1,604,297) | 130,154 |
| Contributions | 3,923,102 | 7,692,631 | - | 11,615,733 |
| Appropriations for expenditure | (3,350,895) | - | - | (3,350,895) |
| Reclassifications | 24,666,549 | (3,959,354) | 25,727 | 20,732,922 |
| Administrative fees | (1,008,162) | (1,800) | - | (1,009,962) |
| Endowment net assets, end of year | $ 70,752,409 | $ 4,111,810 | $ 21,884,954 | $ 96,749,173 |

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.

## NOTE 10. ENDOWMENT DISCLOSURES – CONTINUED

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 11. EMPLOYEE BENEFIT PLAN

The Foundation has a defined contribution plan (the Plan) under Section 403(b) of the Internal Revenue Code (IRC), which covers all eligible employees. Employees may contribute up to 20% 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 of Governors. The Foundation contributed $53,029 and $40,000 to the Plan in 2015 and 2014.

## NOTE 12. 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 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 $14,760 as well as additional amounts for the Foundation's proportional share of building and maintenance expenses.

In 2013, the Foundation entered into a lease for certain office equipment. The lease calls for monthly payments of $785 and expires June 30, 2018.

The following is a schedule of future minimum lease payments under the operating non-cancelable leases at December 31, 2015:

| Year ending December 31 | |
|---|---|
| 2016 | $ 280,867 |
| 2017 | 299,734 |
| 2018 | 295,024 |
| 2019 | 290,314 |
| 2020 | 290,314 |
| Thereafter | 145,157 |
| Total minimum lease payments | $ 1,601,410 |

## NOTE 12. COMMITMENTS AND CONTINGENCIES – CONTINUED

Rental expense under these operating leases for the years ended December 31, 2015 and 2014, was $188,310 and $187,099, respectively. The Foundation's leased office space is accounted for using the straight-line method. The difference between the net cash requirement of the lease and the straight-line method is accrued within accounts payable and accrued liabilities in the accompanying consolidated statement of financial position.

## NOTE 13. CHANGE IN ACCOUNTING PRINCIPLE

On January 1, 2014, the Foundation elected to change its interpretation and application of ASC guidance for Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others. The Foundation applied a more conservative approach as it relates to certain activities considered agency transactions. The new method of accounting for assets held for others was adopted because management believes the new method provides a more clear and consistent presentation of its financial position and application of variance power related to donor funds. The effect of the change in 2014 was to increase assets held for others by $18,559,066 and decrease net assets by $18,559,066.

## NOTE 14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 15, 2016, the date the consolidated financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.