The Dallas Foundation and Affiliates

Consolidated Financial Report
Year Ended December 31, 2016

Assurance • Tax • Advisory

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Independent Auditor's Report

Board of Governors
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 are comprised of the consolidated statements of financial position as of December 31, 2016 and 2015, 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 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 audits 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 and its affiliates as of December 31, 2016 and 2015, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2017 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
July 5, 2017

THE DALLAS FOUNDATION AND AFFILIATES

Consolidated Statements of Financial Position

As of December 31, 2016 and 2015

ASSETS	2016	2015
Cash and cash equivalents	$ 4,672,792	$ 430,308
Investments	334,348,288	252,481,508
Prepaid expenses and other receivables	472,296	319,264
Contributions receivable, net	2,022,957	1,714,660
Interests in irrevocable trusts	25,425,907	25,380,617
Real estate and mineral interests	2,163,125	2,433,480
Property and equipment, net	2,050,563	1,226,849
TOTAL ASSETS	$ 371,155,928	$ 283,986,686
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other liabilities	$ 1,128,738	$ 1,022,276
Grants and program services payable, net	13,961,560	5,901,019
Assets held for others	32,946,162	30,234,752
Total liabilities	48,036,460	37,158,047
NET ASSETS		
Unrestricted	295,561,902	219,768,598
Temporarily restricted	3,272,604	3,177,882
Permanently restricted	24,284,962	23,882,159
Total net assets	323,119,468	246,828,639
TOTAL LIABILITIES AND NET ASSETS	$ 371,155,928	$ 283,986,686

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

The Dallas Foundation and Affiliates

Consolidated Statement of Activities

As of December 31, 2016, and 2015

	Year ended December 31, 2016				Year ended December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT								
Donor contributions	$ 137,269,787	$ 1,139,863	$ 924,480	$ 139,334,130	$ 68,135,772	$ 2,793,010	$ 326,891	$ 71,255,673
Grant revenues	1,183,383	-	-	1,183,383	-	-	-	-
Less: Amounts raised or received on behalf of others	(41,904,185)	-	-	(41,904,185)	(10,972,669)	(548,389)	(9,470)	(11,530,528)
Net contributions	96,548,985	1,139,863	924,480	98,613,328	57,163,103	2,244,621	317,421	59,725,145
Provision for uncollectible pledges	-	(3,850)	-	(3,850)	-	(1,659,590)	-	(1,659,590)
Less: Provision on assets held for others	-	103	-	103	-	120,000	-	120,000
								-
Total investment income	4,915,813	-	-	4,915,813	3,819,308	-	-	3,819,308
Less: Income on assets held for others	(395,717)	-	-	(395,717)	(431,087)	-	-	(431,087)
Net investment income	4,520,096	-	-	4,520,096	3,388,221	-	-	3,388,221
Total investment realized / unrealized gains (losses)	48,338,725	-	-	48,338,725	(19,448,110)	-	-	(19,448,110)
Less: Investment (losses) gains on assets held for others	(623,319)	-	-	(623,319)	584,434	-	-	584,434
Net investment realized / unrealized gains (losses)	47,715,406	-	-	47,715,406	(18,863,676)	-	-	(18,863,676)
Change in value of interests in irrevocable trusts and related income	1,364,634	9,903	(521,677)	852,860	3,348,323	(4,161,528)	1,679,784	866,579
Rental, royalty, and other income	(105,924)	-	-	(105,924)	398,789	-	-	398,789
Net assets released from restrictions	1,051,297	(1,051,297)	-	-	256,004	(256,004)	-	-
TOTAL REVENUES AND SUPPORT	151,094,494	94,722	402,803	151,592,019	45,690,764	(3,712,501)	1,997,205	43,975,468
EXPENSES AND DISTRIBUTIONS								
Total grants and program services	100,494,595	-	-	100,494,595	55,340,105	-	-	55,340,105
Less: Grants on assets held for others	(33,818,473)	-	-	(33,818,473)	(14,772,919)	-	-	(14,772,919)
Grants and program services	66,676,122	-	-	66,676,122	40,567,186	-	-	40,567,186
Educational support	654,694	-	-	654,694	738,423	-	-	738,423
Supporting services and administrative	6,793,279	-	-	6,793,279	1,644,410	-	-	1,644,410
Fundraising	1,177,095	-	-	1,177,095	707,667	-	-	707,667
TOTAL EXPENSES AND DISTRIBUTIONS	75,301,190	-	-	75,301,190	43,657,686	-	-	43,657,686
CHANGE IN NET ASSETS	75,793,304	94,722	402,803	76,290,829	2,033,078	(3,712,501)	1,997,205	317,782
NET ASSETS AT BEGINNING 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
NET ASSETS AT END OF YEAR	$ 295,561,902	$ 3,272,604	$ 24,284,962	$ 323,119,468	$ 219,768,598	$ 3,177,882	$ 23,882,159	$ 246,828,639

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

The Dallas Foundation and Affiliates

Consolidated Statement of Cash Flows
As of December 31, 2016 and 2015

	2016	2015
OPERATING ACTIVITIES		
Change in net assets	$ 76,290,829	$ 317,782
Adjustments to reconcile change in net assets to		
net cash provided by operating activities:		
Non-cash contributions of stock and other investments	(68,349,540)	(8,632,712)
Proceeds from sales of donated financial assets	6,798,793	8,890,592
Realized and unrealized (gains) losses on investments	(47,715,406)	18,863,676
Realized and unrealized losses (gains) on interests in irrevocable trusts	2,082,987	(1,811,782)
Unrealized losses on real estate and mineral interests	270,355	246,359
Depreciation expense	362,212	23,903
Discount amortization	-	(95,735)
Changes in operating assets and liabilities:		
Prepaid expenses and other receivables	(153,032)	(155,202)
Contributions receivables	(308,297)	4,599,691
Accounts payable and other liabilities	106,462	536,001
Grants and program services payable	8,060,541	1,351,631
Assets held for others	2,711,410	(3,484,010)
Net cash (used in) provided by operating activities	(19,842,686)	20,650,194
INVESTING ACTIVITIES		
Purchases of investments	(23,806,705)	(89,868,707)
Proceeds from sales and maturities on investments	49,077,801	70,349,437
Purchases of property and equipment	(1,185,926)	(1,201,701)
Net cash provided by (used in) investing activities	24,085,170	(20,720,971)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,242,484	(70,777)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	430,308	501,085
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,672,792	$ 430,308
SUMMARY OF NONCASH ACTIVITIES		
Donated goods and services	$ 2,321,694	$ 25,185
Non-cash contributions of stock and other investments	$ 68,349,540	$ 8,632,712

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

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.

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).

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 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. 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 $40,000 and $59,000 for the years ended December 31, 2016 and 2015, 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 $2,321,694 and $25,185 of donated goods and services primarily for advertisements and legal and professional services in the years ended December 31, 2016 and 2015, respectively. Such donated services are included in unrestricted 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.

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 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.

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 $7,913,387 and $8,827,285 of investments that are reported at net asset value at December 31, 2016 and 2015, 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.

The amounts reported at net asset value at December 31, 2016 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.

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 permanently restricted net assets.

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 interest in irrevocable perpetual trusts in the consolidated statements of activities. These trusts totaled $21,470,742 and $21,765,364 as of December 31, 2016 and 2015, respectively, and are included in interest in irrevocable 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, 2016 and 2015, and the estimated net investment return of the trust which is estimated at 8.5% to 10.0% at December 31, 2016 and 2015. The trusts will terminate between December 2020 and December 2025. Changes in the fair value of beneficial interests are reflected as temporarily restricted changes in value of interest in irrevocable trusts in the consolidated statements of activities. These trusts totaled $1,140,945 and $1,363,222 as of December 31, 2016 and 2015, respectively, and are included in interest in irrevocable trusts on the consolidated statements 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, 2016 and 2015, respectively, are $2,814,220 and $2,252,031. 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 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.

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.

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 2016 and 2015.

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, 2016 and 2015. 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 a 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 years ended December 31, 2016 and 2015, 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 2014.

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:

Grants and Program Services: Grants and program services represent amounts awarded to various not-for-profit organizations 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 private 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 2016 and 2015, the Foundation received contributions from three donors totaling approximately $47,400,000 (34% of total contribution revenue) and $27,800,000 (39% of total contribution revenue), respectively. Contributions receivable reflected in the consolidated statements of financial position did not represent a concentration in 2016. In 2015 the receivable was primarily due from three donors representing 73% of gross contributions receivable at December 31, 2015.

The Foundation's grants payable reflected in the consolidated statements of financial position are primarily due to two and five grant recipients representing 51% and 61% of gross grants payable at December 31, 2016 and 2015, respectively. In 2016 grants awards were not highly concentrated. In 2015, approximately 22% 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, interest in irrevocable trusts in perpetual and charitable lead 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 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.

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:

In 2015, FASB issued Accounting Standards Update (ASU) No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The amendment applies to reporting entities that elect to measure the fair value of an investment using the net asset value per share (or its equivalent) practical expedient. The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. This ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. This ASU is effective for the Foundation for their fiscal year beginning after December 15, 2016 and requires retrospective treatment to all periods presented. The Foundation has fully adopted the provisions of ASU 2015-07 as of December 31, 2016 and has presented all years in these consolidated financial statements in accordance with this new pronouncement.

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 presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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.
- 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.

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. The Foundation has no assets or liabilities carried at fair value on a non-recurring basis at December 31, 2016 and 2015.

Reclassifications

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

Note 3. Investments

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

	2016	2015
Investments		
Cash and short-term funds	$ 6,687,497	$ 24,395,514
Certificates of deposit	2,008,574	2,033,364
Common and preferred stocks	35,835,820	24,517,266
U.S. Treasury notes	31,654,435	26,002,650
U.S. Government sponsored enterprise	112,577	197,877
Corporate bonds	2,162,719	2,848,533
Municipal bonds	254,278	290,173
Mutual funds	108,964,436	90,482,690
Non-marketable securities	146,667,952	81,713,441
Total investments	$ 334,348,288	$ 252,481,508

Investment income consisted of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Interest and dividends	$ 4,915,813	$ 3,819,308
Perpetual trust distributions	1,364,634	1,107,903
	6,280,447	4,927,211
Less: interest and dividends on assets held for others	(395,717)	(431,087)
Total investment income	$ 5,884,730	$ 4,496,124
Net realized gains on investments	$ 2,287,817	$ 5,690,227
Net unrealized gains (losses) on investments	46,050,908	(25,138,337)
	48,338,725	(19,448,110)
Less: realized and unrealized (losses) gains on assets held for others, net	(623,319)	584,434
Total realized and unrealized gains (losses)	$ 47,715,406	$ (18,863,676)

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

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 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. 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.

Interests in Irrevocable Perpetual 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 interest in the irrevocable trust, 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.

Interests in Irrevocable 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.

Interests in Irrevocable Charitable Remainder Trusts

The assets are recorded at their net realizable value, as estimated based on various assumptions including the present value of estimated future cash flows. The present value calculation uses discount rates of approximately 6% and life expectancy tables from the Internal Revenue Service.

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 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, 2016 as follows:

	NAV	Level 1	Level 2	Level 3	Total
ASSETS					
Cash and cash equivalents	$ -	$ 4,672,792	$ -	$ -	$ 4,672,792
Investments:					
Marketable securities:					
Cash and short-term funds	$ -	$ 6,687,497	$ -	$ -	$ 6,687,497
Certificates of deposit	-	-	2,008,574	-	2,008,574
Common and preferred stocks:					
Domestic	-	33,808,751	-	-	33,808,751
Foreign	-	2,027,069	-	-	2,027,069
U.S. Treasury notes	-	31,654,435	-	-	31,654,435
U.S. Government sponsored enterprise	-	112,577	-	-	112,577
Corporate bonds	-	2,162,719	-	-	2,162,719
Municipal bonds	-	-	254,278	-	254,278
Mutual funds:					
Fixed income funds:					
Index funds	-	32,203,615	-	-	32,203,615
Government, agency, corporate obligations	-	5,383,913	-	-	5,383,913
Equity funds:					
Index funds	-	69,877,322	-	-	69,877,322
Other	-	1,499,586	-	-	1,499,586
Total marketable securities	-	185,417,484	2,262,852	-	187,680,336
Non-marketable securities:					
Common funds, hedge funds and limited partnerships:					
Energy funds	158,297	-	-	-	158,297
Equity funds	3,971,755	-	-	-	3,971,755
Fixed income funds	1,803,715	-	-	-	1,803,715
REIT	292,520	-	-	-	292,520
Funds of funds	-	-	1,160,207	-	1,160,207
Future funds	286,349	-	-	-	286,349
Income funds	1,400,751	-	-	-	1,400,751
Stock held in private company	-	-	-	15,243,628	15,243,628
Collateralized loan obligations	-	-	-	61,726,733	61,726,733
Other limited partnerships	-	-	-	60,623,997	60,623,997
Total non-marketable investments	7,913,387	-	1,160,207	137,594,358	146,667,952
Total investments	$ 7,913,387	$ 185,417,484	$ 3,423,059	$ 137,594,358	$ 334,348,288
Beneficial interests in trusts	$ -	$ -	$ -	$ 25,425,907	$ 25,425,907
Real estate and mineral interests	$ -	$ -	$ -	$ 2,163,125	$ 2,163,125
LIABILITIES					
Assets held for others	$ -	$ -	$ -	$ (32,946,162)	$ (32,946,162)

Assets and liabilities measured at fair value on a recurring basis are classified within the fair value hierarchy at December 31, 2015 as follows:

	NAV	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	-	31,597,295	-	-	31,597,295
Government, agency, corporate obligations	-	6,245,766	-	-	6,245,766
Other	-	69,849	-	-	69,849
Equity funds:					
Index funds	-	50,444,047	-	-	50,444,047
Other	-	2,125,733	-	-	2,125,733
Total marketable securities	-	168,444,530	2,323,537	-	170,768,067
Non-marketable securities:					
Common funds, hedge funds and limited partnerships:					
Energy funds	149,840	-	-	-	149,840
Equity funds	4,361,778	-	-	-	4,361,778
Fixed income funds	2,032,511	-	-	-	2,032,511
REIT	354,628	-	-	-	354,628
Fund of funds	-	-	1,107,118	-	1,107,118
Futures funds	332,632	-	-	-	332,632
Income funds	1,595,896	-	-	-	1,595,896
Collateralized loan obligations	-	-	-	40,400,000	40,400,000
Other limited partnerships	-	-	-	31,379,038	31,379,038
Total non-marketable investments	8,827,285	-	1,107,118	71,779,038	81,713,441
Total investments	$ 8,827,285	$ 168,444,530	$ 3,430,655	$ 71,779,038	$ 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					
Liability for agency transfers	$ -	$ -	$ -	$ (30,234,752)	$ (30,234,752)

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 January 1, 2015	$ -	$ 54,900,000	$ 5,845,907
Net realized losses	-	-	(80,074)
Net unrealized losses	-	(12,945,200)	(251,463)
Distributions	-	(1,554,800)	-
Contributions	-	-	29,673,868
Sales of investments	-	-	(3,809,200)
Balance at December 31, 2015	-	40,400,000	31,379,038
Net realized gains	-	-	29,304,323
Net unrealized gains	-	12,740,300	19,393
Distributions	-	(23,154,567)	(166,487)
Contributions	15,243,628	10,559,643	87,730
Purchases	-	21,181,357	-
Balance at December 31, 2016	$ 15,243,628	$ 61,726,733	$ 60,623,997

	Assets		Liabilities
	Beneficial Interest Trusts	Real Estate and Mineral Interests	Liability for Agency Transfers
Balance at January 1, 2015	$ 23,541,104	$ 2,679,839	$ 33,718,762
Investment income	-	-	431,087
Net realized gains	-	-	931,107
Net unrealized losses	-	(246,359)	(1,515,541)
Change in value of interests in irrevocable trusts	1,839,513	-	-
Grant payments	-	-	(5,601,598)
Vendor payments	-	-	(9,259,593)
Contributions	-	-	11,530,528
Balance at December 31, 2015	25,380,617	2,433,480	30,234,752
Investment income	-	-	395,717
Net realized gains	-	-	264,615
Net unrealized (losses) gains	-	(270,355)	358,704
Change in value of interests in irrevocable trusts	45,290	-	-
Administrative and other fees	-	-	(236,840)
Grants payments	-	-	(37,581,433)
Vendor payments	-	-	(2,393,538)
Contributions	-	-	41,904,185
Balance at December 31, 2016	$ 25,425,907	$ 2,163,125	$ 32,946,162

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			
	2016	2015	Redemption or Liquidity	Days Notice
Energy funds	$ 158,297	$ 149,840	Monthly	10
Equity funds - other	1,801,899	2,125,733	Daily	1-3
Equity funds - global	2,169,856	2,236,045	Weekly	1-3
Fixed income funds	1,516,703	1,687,470	Daily	1-3
Fixed income funds - global	287,012	345,041	Weekly	1-3
REIT	292,520	354,628	Daily	1
Future funds	286,349	332,632	Monthly	10
Income funds	1,400,751	1,595,896	Daily	1-3
	$ 7,913,387	$ 8,827,285		

At December 31, 2016 and 2015, 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.
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.

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, 2016 and 2015:

	Fair Value				
Investment Type	December 31, 2016	December 31, 2015	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%)
Collateralized loan obligations	61,726,733	40,400,000	Asset-based approach	Discount for lack of marketability (a) Discount for lack of control (a)	10% (10%) 5% (5%)
Other limited partnerships	60,623,997	31,379,038	Asset-based approach	Discount for lack of marketability (a) Discount for lack of control (a)	0%-30% (19%) 0%-15% (10%)
Beneficial interest I trusts	25,425,907	25,380,617	Discounted cash flows and Income approach (c)	Discount rate (a) Expected rate of return (b)	0%-6% (0%-6%) 8.5%-10% (8.7%)
Real estate and mineral interest	2,163,125	2,433,480	Income approach (c)	Revenue multiple (d)	4x (4x) 4x
Assets held for others	(32,946,162)	(30,234,752)	Income approach (c)	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) 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.

(d) 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:

	2016	2015
Contributions receivable due in less than one year	$ 548,928	$ 1,364,825
Contributions receivable due in one to five years	1,514,193	408,349
Gross contributions receivable	2,063,121	1,773,174
Less: allowance for uncollectible pledges	(40,164)	(58,514)
Contributions receivable, net	$ 2,022,957	$ 1,714,660

At December 31, 2016 and 2015, the Foundation has gross receivable of $2,063,121 and $1,773,174, respectively, which includes pledges for which there is a corresponding liability for agency transfers included in the consolidated statements of financial position totaling $250,000 and $361,533, respectively. The Foundation does not calculate any discount or allowance on pledges for which there is a corresponding liability as any such amounts would increase (or decrease) the corresponding agency liability and have no impact on the consolidated change in net assets.

Note 6. Property and Equipment

Property and equipment are summarized as follows at December 31:

	2016	2015
Furniture and fixtures	$ 199,328	$ 104,893
Leasehold improvements	9,420	9,420
Software	173,867	118,420
Equipment	64,602	60,451
Buildings	2,184,093	-
Construction in progress	-	1,152,200
	2,631,310	1,445,384
Less: Accumulated depreciation	(580,747)	(218,535)
	$ 2,050,563	$ 1,226,849

Depreciation expense for the years ended December 31, 2016 and 2015 was $362,212 and $23,903, 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:

	2016	2015
Grants and program services payable		
in less than one year	$ 11,720,632	$ 4,580,626
in one to five years	2,379,667	1,416,128
Gross grants and program services payable	14,100,299	5,996,754
Less: Discount to net present value	(138,739)	(95,735)
Grants and program services payable, net	$ 13,961,560	$ 5,901,019

For the years ending December 31, 2016 and 2015, 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 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, 2016 and 2015, 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 $32,946,162 and $30,234,752, respectively.

Note 9. Net Assets

Permanently restricted net assets at December 31 are designated for the following purposes:

	2016	2015
Community competitive grants	$ 4,118,597	$ 4,374,380
Education	527,690	504,855
Health	420,716	252,427
Human services	263,845	252,427
Religion	546,589	232,611
Scholarships	1,055,380	1,009,710
Social services	17,352,145	17,255,749
	$ 24,284,962	$ 23,882,159

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

	2016	2015
Time restrictions	$ 2,131,658	$ 1,814,660
Beneficial interests in charitable lead trusts	1,140,946	1,363,222
Total	$ 3,272,604	$ 3,177,882

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:

	2016	2015
Time restrictions	$ 819,117	$ -
Beneficial interests in charitable lead trusts	232,180	256,004
	$ 1,051,297	$ 256,004

Note 10. Endowment Disclosures

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

	2016	2015
Unrestricted (Board Designated)	$ 71,465,464	$ 66,802,766
Temporarily Restricted	76,000	-
Permanently Restricted	24,284,962	23,882,159
Total endowment funds	$ 95,826,426	$ 90,684,925

Changes in endowment net assets are as follows:

	As of December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 66,802,766	$ -	$ 23,882,159	$ 90,684,925
Investment return:				
Interest and dividends	1,588,860	-	-	1,588,860
Rent and royalty income	125,623	-	-	125,623
Net investment gains (losses)	3,125,577	-	(521,677)	2,603,900
Investment fees	(122,957)	-	-	(122,957)
Total investment return	4,717,103	-	(521,677)	4,195,426
Contributions	2,614,200	91,250	924,480	3,629,930
Appropriations for expenditure	(4,544,883)	-	-	(4,544,883)
Reclassification	3,163,927	(15,250)	-	3,148,677
Administrative fees	(1,287,649)	-	-	(1,287,649)
Endowment net assets, end of year	$ 71,465,464	$ 76,000	$ 24,284,962	$ 95,826,426

	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

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 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 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 of Governors. The Foundation contributed $45,215 and $53,029 to the Plan in 2016 and 2015.

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 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 21, 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 July 31, 2018.

The following is a schedule of future minimum lease payments under the operating non-cancelable leases at December 31, 2016:

Year ending December 31		
2017	$	299,734
2018		295,024
2019		290,314
2020		290,314
2021		145,147
Total minimum lease payments	$	1,320,533

Rental expense under these operating leases for the years ended December 31, 2016 and 2015, was $424,867 and $188,310, 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.

Rental expense includes in-kind rent in the amount of $144,000 for the year ended December 31, 2016. The Foundation leases a property for the use of property used for the Zero to Five initiatives at a cost of $0 per year through 2019. The Foundation has recorded a contribution receivable for the estimated value of the remaining benefit to be provided until the end of the agreement.

Note 13. Subsequent Events

Management has evaluated subsequent events through July 5, 2017, the date the consolidated financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.