REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

# COMMUNITIES FOUNDATION OF TEXAS

**June 30, 2019 and 2018**

MOSSADAMS

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# Report of Independent Auditors

The Finance and Audit Committee
Communities Foundation of Texas

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Communities Foundation of Texas (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the 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 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.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Communities Foundation of Texas as of June 30, 2019 and 2018, and the results of their change 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.

### *Emphasis of a Matter*

As discussed in Note 1 to the consolidated financial statements, Communities Foundation of Texas adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Moss Adams LLP

Dallas, Texas
December 11, 2019

# Communities Foundation of Texas
## Consolidated Statements of Financial Position
## June 30, 2019 and 2018
## Presented in 000's

### ASSETS

| | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | $ 19,544 | $ 29,788 |
| Interest, dividends, and other receivables | 1,885 | 1,487 |
| Contributions receivable, net | 7,932 | 11,848 |
| Investments | 1,041,964 | 1,006,423 |
| Beneficial interest in charitable remainder trusts | 6,886 | 6,643 |
| Real estate held for investment | 2 | 322 |
| Real estate held for sale | 2,270 | 6,367 |
| Other investments | 15,295 | 15,508 |
| Property and equipment, net | 44,729 | 46,573 |
| Other assets | 1,876 | 1,440 |
| Total assets | $ 1,142,383 | $ 1,126,399 |

### LIABILITIES AND NET ASSETS

| | 2019 | 2018 |
|---|---|---|
| LIABILITIES | | |
| Accounts payable and accrued liabilities | $ 2,587 | $ 1,491 |
| Grants payable, net | 22,228 | 27,969 |
| Funds held for others | 51,454 | 37,510 |
| Deferred revenue | 256 | 281 |
| Liabilities associated with split-interest agreements | 3,594 | 3,583 |
| Total liabilities | 80,119 | 70,834 |
| NET ASSETS | | |
| Without donor restriction | 836,232 | 847,689 |
| With donor restriction | 226,032 | 207,876 |
| Total net assets | 1,062,264 | 1,055,565 |
| Total liabilities and net assets | $ 1,142,383 | $ 1,126,399 |

See accompanying notes.

# Communities Foundation of Texas
## Consolidated Statement of Activities
## For Year Ended June 30, 2019
## Presented in 000's

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| REVENUES AND GAINS | | | |
| Contributions | $ 54,955 | $ 14,037 | $ 68,992 |
| Investment income, net | 37,450 | 7,451 | 44,901 |
| Gain (loss) on real estate held for sale | 1,170 | (156) | 1,014 |
| Change in value of split-interest agreements | (238) | 601 | 363 |
| Other income | 9,731 | 2,008 | 11,739 |
| Reclassifications - donor directed | (11,225) | 11,225 | - |
| Net assets released from restrictions | 17,010 | (17,010) | - |
| Total revenues and gains | 108,853 | 18,156 | 127,009 |
| GRANTS AND EXPENSES | | | |
| Programs | | | |
| Grants | 91,981 | - | 91,981 |
| Other | 15,910 | - | 15,910 |
| Supporting activities | | | |
| General and administrative expenses | 9,824 | - | 9,824 |
| Development | 2,595 | - | 2,595 |
| Total grants and expenses | 120,310 | - | 120,310 |
| CHANGE IN NET ASSETS | (11,457) | 18,156 | 6,699 |
| NET ASSETS | | | |
| Beginning of year | 847,689 | 207,876 | 1,055,565 |
| End of year | $ 836,232 | $ 226,032 | $ 1,062,264 |



See accompanying notes.

# Communities Foundation of Texas
## Consolidated Statement of Activities
## For Year Ended June 30, 2018
## Presented in 000's

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| REVENUES AND GAINS | | | |
| Contributions | $ 58,742 | $ 14,207 | $ 72,949 |
| Investment income, net | 53,273 | 11,374 | 64,647 |
| Loss on real estate held for sale | (2,872) | - | (2,872) |
| Change in value of split-interest agreements | (204) | 320 | 116 |
| Other income | 10,408 | 575 | 10,983 |
| Reclassifications - donor directed | (4,655) | 4,655 | - |
| Net assets released from restrictions | 18,788 | (18,788) | - |
| Total revenues and gains | 133,480 | 12,343 | 145,823 |
| GRANTS AND EXPENSES | | | |
| Programs | | | |
| Grants | 94,875 | - | 94,875 |
| Other | 12,384 | - | 12,384 |
| Supporting activities | | | |
| General and administrative expenses | 9,112 | - | 9,112 |
| Development | 2,336 | - | 2,336 |
| Total grants and expenses | 118,707 | - | 118,707 |
| CHANGE IN NET ASSETS | 14,773 | 12,343 | 27,116 |
| NET ASSETS | | | |
| Beginning of year | 832,916 | 195,533 | 1,028,449 |
| End of year | $ 847,689 | $ 207,876 | $ 1,055,565 |

See accompanying notes.

# Communities Foundation of Texas
## Consolidated Statement of Functional Expenses
## For Year Ended June 30, 2019
## Presented in 000's

| | Programs | General and administrative | Development | Total |
|---|---|---|---|---|
| Grants awarded | $ 91,981 | $ - | $ - | $ 91,981 |
| Personnel | 7,523 | 3,475 | 1,859 | 12,857 |
| Occupancy | 1,754 | 3,834 | 168 | 5,756 |
| Consultants/professional services | 4,417 | 1,213 | 71 | 5,701 |
| Other | 503 | 459 | 75 | 1,037 |
| Special events | 551 | 238 | 184 | 973 |
| Marketing | 349 | 470 | 136 | 955 |
| Travel | 483 | 57 | 44 | 584 |
| Information technology | 330 | 78 | 58 | 466 |
| Total | $ 107,891 | $ 9,824 | $ 2,595 | $ 120,310 |

 See accompanying notes.

# Communities Foundation of Texas
## Consolidated Statement of Functional Expenses
## For Year Ended June 30, 2018
## Presented in 000's

| | Programs | General and administrative | Development | Total |
|---|---|---|---|---|
| Grants awarded | $ 94,875 | $ - | $ - | $ 94,875 |
| Personnel | 6,469 | 3,266 | 1,688 | 11,423 |
| Occupancy | 1,478 | 3,516 | 142 | 5,136 |
| Consultants/professional services | 2,727 | 1,101 | 66 | 3,894 |
| Marketing | 376 | 369 | 161 | 906 |
| Special events | 274 | 397 | 139 | 810 |
| Other | 351 | 285 | 61 | 697 |
| Travel | 372 | 104 | 27 | 503 |
| Information technology | 337 | 74 | 52 | 463 |
| Total | $ 107,259 | $ 9,112 | $ 2,336 | $ 118,707 |

See accompanying notes.

# Communities Foundation of Texas
## Consolidated Statements of Cash Flows
## For Years Ended June 30, 2019 and 2018
## Presented in 000's

| | 2019 | 2018 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Change in net assets | $ 6,699 | $ 27,116 |
| Adjustments to reconcile change in net assets to net cash used in operating activities | | |
| Depreciation | 2,060 | 1,728 |
| Amortization of discount on grants payable | 163 | (134) |
| Discount on contribution receivable | (16) | (137) |
| Net gain on investments | (36,646) | (58,618) |
| Change in value of split interest agreements | (363) | (116) |
| Loss (gain) on sale of real estate | (1,014) | 1,047 |
| Impairment on real estate held for sale | - | 1,825 |
| Noncash contributions | (17,040) | (26,219) |
| Write off of uncollectible accounts | - | 384 |
| Changes in operating assets and liabilities | | |
| Contributions, interest, dividends, and other receivables | 3,534 | (2,455) |
| Other assets | (436) | (136) |
| Accounts payable and accrued liabilities | 1,096 | (722) |
| Grants payable | (5,904) | (407) |
| Funds held for others | 10,808 | (159) |
| Liabilities associated with split-interest agreements | 251 | 204 |
| Net cash used in operating activities | (36,808) | (56,799) |
| INVESTING ACTIVITIES | | |
| Purchases of investments | (313,615) | (299,325) |
| Proceeds from the sales of investments | 334,658 | 357,930 |
| Purchases of property and equipment | (575) | (2,129) |
| Proceeds from sales of real estate | 5,790 | 5,634 |
| Proceeds from sales of other investments | 171 | 607 |
| Net cash provided by investing activities | 26,429 | 62,717 |
| FINANCING ACTIVITIES | | |
| Distribution from beneficial interest in charitable remainder trusts | 135 | 385 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (10,244) | 6,303 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 29,788 | 23,485 |
| End of year | $ 19,544 | $ 29,788 |



See accompanying notes.

**Presented in 000's**

| | 2019 | 2018 |
|---|---|---|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Net realized and unrealized gains on agency funds | $ 3,136 | $ 2,395 |
| Noncash contributions of investments | $ 16,760 | $ 2,527 |
| Noncash contributions of other investments | $ - | $ 592 |
| Noncash contributions of charitable remainder trust | $ 280 | $ 300 |
| Noncash partial conversion of a receivable to a grant | $ - | $ 51 |

See accompanying notes.

## Note 1 – Summary of Significant Accounting Policies

### General Purpose and Activities

Communities Foundation of Texas (the Community Foundation) is a nonprofit Texas corporation with no capital stock and is classified by the Internal Revenue Service as tax- exempt under Section 501(c)(3) and as a non-private foundation under Section 509(a)(1) of the Internal Revenue Code of 1986. The Community Foundation administers more than 1,000 funds comprised of donor advised, non-donor advised, trusts and endowment funds established with an instrument of gift.

The Community Foundation is committed to serving charitable needs both domestically and abroad through charitable grants and services at the discretion of the Board of Trustees.

In addition, the Community Foundation administers the Educate Texas program, a significant program that provides grants and support to Texas schools as well as North Texas Giving Day, a significant regional on-line event.

### Reporting Entity

The consolidated financial statements include the Community Foundation and the W.W. Caruth, Jr. Foundation, The Nancy Ann Hunt Foundation, The Ruth Foundation, The Robert and Nancy Dedman Foundation, and effective October 9, 2018, The Dedman Dietz Family Foundation (the Supporting Organizations). The Supporting Organizations are consolidated with the Community Foundation in the accompanying consolidated financial statements because the Community Foundation has an economic interest in the organizations, serves as trustee and/ or controls the affiliated organizations' boards of directors. The consolidated financial statements also include the accounts and activities of Flora Street, LLC (and its wholly owned entities Flora Street Retail, LLC and Flora Street Retail 1-2, LLC), Expressway Central Control Company, Inc., Florida Central Control, Inc., Suncoast Central Control, LLC, Texas Central Control, LLC, Caruth Building Services, Inc., Medallion Center Partners, LP, and Medallion Center Partners GP, LLC. The primary purpose of these entities is to hold and manage real estate properties and other investments on behalf of the Community Foundation and certain Supporting Organizations. The Community Foundation, the Supporting Organizations, and all other consolidated entities are collectively referred to as the Foundation throughout these financial statements. All significant inter-organization transactions have been eliminated.

### Basis of Presentation

The Foundation follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative guidance for accounting principles general accepted in the United States of America (U.S. GAAP) for nongovernmental entities. The Foundation's consolidated financial statements have been prepared on the accrual basis of accounting.

### Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates.

### Note 1 – Summary of Significant Accounting Policies (continued)

**Significant Estimates**
Estimates that are particularly susceptible to significant change include the fair value of investments, beneficial interest in charitable remainder trusts, and contributions receivable and the related allowance for doubtful accounts. Due to the level of risk associated with these financial instruments, it is reasonably possible that changes in the values of the investments and beneficial interest 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 contributions receivable and the related allowance for uncollectible amounts is based on consideration of all relevant available information and an analysis of the collectability of individual contributions at the financial statement date.

**Implemented Accounting Pronouncement**
During fiscal year 2019, the Foundation adopted FASB Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities.* This guidance is intended to improve the net asset classification requirements and the information presented in the consolidated financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; recognition of underwater endowment funds as a reduction in net assets with donor restrictions; and reporting investment income net of external and direct internal investment expenses. The guidance also enhances disclosures for board designated amounts, and underwater endowments compositions of net assets with donor restriction and how the restrictions affect the use of resources, qualitative and quantitative information about the liquidity and availability of financial assets to meet general expenditures within one year of the consolidated statement of financial position date, and expense by both their natural and functional classification, including methods used to allocate costs among program and support functions.

Net assets were reclassified as follow for June 30, 2018:

| | ASU 2016-14 Classifications | | |
|---|---|---|---|
| | Without Donor Restriction | With Donor Restriction | Total |
| Unrestricted | $ 847,689 | $ - | $ 847,689 |
| Temporarily Restricted | - | 203,494 | 203,494 |
| Permanently Restricted | - | 4,382 | 4,382 |
| | $ 847,689 | $ 207,876 | $ 1,055,565 |

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Net Asset Classification**

Without donor restriction is defined as that portion of net assets that has no use or time restrictions. As a community foundation, in accordance with United States Treasury Regulations, the Foundation possesses variance power. Variance power is the unilateral right to remove donor-imposed restrictions upon a gift in response to changed circumstances. The Foundation interprets this variance power to apply to endowment restrictions as well as purpose restrictions. This power is exercisable only in narrowly defined circumstances. Since this variance power is incorporated by reference in most gift instruments, the Foundation views its variance power as an explicit expression of donor intent. Based on this provision, except as noted below, the Foundation classifies contributions as without donor restriction for financial statement presentation. A portion of these net assets may be designated by the Foundation’s Board of Directors for the maintenance of the property as well as the funding of program and services.

With donor restriction is defined as that portion of net assets that consists of a restriction on the specific use or the occurrence of a certain future event.

The Board of Trustees, on the advice of legal counsel, has determined that the majority of the Foundation's endowment funds meet the definition of endowment funds under the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) enacted by the State of Texas effective September 1, 2007 (TUPMIFA). Most of the Foundation's endowment contributions are received subject to the terms of a standard fund agreement. Under the terms of the standard fund agreement, the Board of Trustees has the ability to distribute as much of the corpus of any gift, devise, bequest or fund as the Board of Trustees, in its sole discretion, shall determine. As a result of the ability to distribute corpus, the Board of Trustees has determined that all endowment contributions received subject to the standard fund agreement, and subject to TUPMIFA, are classified as with donor restriction until appropriated, at which time the appropriation is reclassified to without donor restriction.

In accordance with TUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate with donor restriction endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the endowment fund with donor restriction
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Net Asset Classification, continued**
In addition to with donor restricted endowments, all contributions received with donor imposed time restrictions are classified as with donor restriction until the payments are received unless the respective gift is specifically designated for use in the current period by the donor. Contributions received under split-interest agreements, except for charitable gift annuities, are also classified as with donor restriction due to the implied time restriction on the use of such assets.

**Endowment Investment and Spending Policies**
The Foundation has adopted investment and spending policies for endowments that attempt to provide a predictable stream of funding to programs supported by its endowments. The Foundation's investment and spending policies work together to achieve this objective. The current long-term return objective is compared to a similarly weighted benchmark representing appropriate market-based indices. The performance is also compared to the general inflation rate as measured by the Consumer Price Index. 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.

The spending policy calculates the amount of money annually distributed from the Foundation's various endowment funds. The spending policy is to distribute an amount not greater than 4.5 percent of the average preceding 16 quarters net asset balance in the fund at June 30, 2019 and 2018.

From time to time, certain donor-restricted endowment funds may have fair values less than the corpus value (underwater endowments). At June 30, 2019, the Foundation had 11 endowment funds with deficiencies of this nature totaling approximately $1,044,000. The underwater endowments for the year ended June 30, 2018 were considered to be insignificant to the consolidated financial statements as a whole. These deficiencies are reflected in net assets with donor restrictions. The corpus value of those underwater funds are as follows at June 30 (in thousands):

| | 2019 |
|---|---|
| Fair value of underwater endowments | $ 6,252 |
| Original endowment gift amount | 7,296 |
| Deficiencies of underwater endowment funds | $ (1,044) |

We have interpreted TUPMIFA to permit spending from underwater endowments with the following reductions in the spending policy to maintain the purchasing power of the underwater funds. The table below illustrates the reduction in spending policy for grants from funds with balances that are under historic gift value at June 30, 2019 and 2018:

| Amount Underwater | Reduction in Spending |
|---|---|
| Under 5.00% | None |
| 5.00% to 10.00% | 25% |
| 10.01 to 15.00% | 50% |
| More than 15.00% | 100% until fair value reaches at least 90% of corpus |

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Contribution Revenue Recognition**
Contributions are recognized as revenue when they are received or unconditionally promised. Bequests are recognized as contribution revenue at the date the will is declared valid by the probate court and the amount to be received by the Foundation can be estimated. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributions of assets other than cash are recorded at their estimated fair value on the gift date. Contributions to be received after one year are recorded at the present value of their estimated future cash flows using a discount rate that is commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in the same net asset class and fund as the original contribution.

The Foundation reports gifts of cash and other assets as contributions with donor restriction when they are received under gift instruments with donor stipulations that limit their use (i.e. gifts without variance power) and/or time restrictions (including implied time restrictions). When a restriction expires, that is, when a stipulated time restriction ends or donor restriction is accomplished, the net assets are reclassified to without donor restriction and reported in the consolidated statements of activities as net assets released from restriction.

**Net Assets Released from Restrictions**
Net assets released from restrictions are net asset reclassifications that result from fulfillment of the purposes for which the net assets were restricted and/or restrictions which expired with the passage of time.

**Reclassifications-Donor Directed**
Donor-directed reclassifications are net asset reclassifications that occur when a donor withdraws or court action removes previously imposed restrictions, when a donor imposes restrictions on otherwise unrestricted net assets, when a donor changes or modifies their existing restriction, and/or when an existing donor restriction requires certain amounts to be reclassified.

**Cash and Cash Equivalents**
Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less when purchased, excluding cash equivalent funds held in the Foundation's investment portfolio.

**Investments**
The Foundation reports investments at fair value. In accordance with U.S. GAAP, certain investments are measured at fair value using the net asset value per share (or its equivalent) practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by Foundation management. All unrealized gains and losses related to the investment portfolio are included in the change in net assets in the consolidated statements of activities. Realized gains and losses are computed on the average cost basis.

### Note 1 – Summary of Significant Accounting Policies (continued)

**Beneficial Interest in Charitable Remainder Trusts**
Beneficial interest in charitable remainder trusts represents the amount held for the benefit of the Foundation under irrevocable trust agreements between donors and third-party trustees and are carried at fair value in the consolidated statements of financial position (see Note 6). The Foundation estimates the fair value of the interest annually and recognizes any changes in the fair value as a change in value of split-interest agreements in the consolidated statements of activities.

**Property and Equipment**
Property and equipment are recorded at estimated fair value at the date of donation or at cost, if purchased. The Foundation capitalizes all contributions or purchases of equipment with an original cost basis of $2,500 or more. Depreciation is recorded using the straight-line method based on expected useful lives ranging from three to 40 years. The Foundation records impairments of its property and equipment when it becomes probable that the carrying value of the assets will not be fully recovered over the estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances at the time of the determination. No property or equipment impairments were recorded for the years ended June 30, 2019 and 2018.

**Cash Surrender Value of Life Insurance Policies**
Cash surrender value of life insurance is recorded at the amount that can be realized at the date of the consolidated statements of financial position and are included in other assets in the consolidated statements of financial position.

**Other Investments**
Other investments consist of equity interests in privately held corporations, limited partnerships and limited liability companies which do not have readily determinable fair values. These investments are carried under the equity method or at cost (or fair value at the time of donation) in the consolidated financial statements. The Foundation evaluates its ownership interest and ability to exercise significant influence over an entity in determining whether to carry the investment under the equity method or at cost at the time of purchase or donation. Under the equity method, the interest's carrying amount is (1) increased for the Foundation's proportionate share of earnings or (2) decreased for the Foundation's proportionate share of losses and distributions received. Investments carried at cost are evaluated for impairment when whenever events or circumstances indicate that the carrying value may not be recoverable. See Note 13 for additional information regarding the Foundation's other investments.

**Impairment of Long-Lived Assets and Other Assets**
The Foundation reviews long-lived assets, including property and equipment, and limited partnership and limited liability company interests, for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not otherwise be recoverable. In connection with this review, the Foundation also re-evaluates applicable periods of depreciation and amortization for these assets. The Foundation assesses the recoverability by determining whether the carrying value of the related asset will be recovered through the projected undiscounted future cash flows of the asset. If the Foundation determines that the carrying value of the asset may not be recoverable, it measures any impairment based on the asset's fair value as compared to the asset's carrying value. Once impairment is recognized the asset will not be written back to cost, even if the asset or investment subsequently increases in fair value. The Foundation recorded approximately $0 and $1,825,000 of impairment on real estate held for sale at June 30, 2019 and 2018, respectively.

### Note 1 – Summary of Significant Accounting Policies (continued)

**Grants Payable and Program Expenses**
Grants represent amounts awarded to various not-for-profit organizations to assist with funding of general operations or special programs. Other program expenses are primarily related to operation of Educate Texas and other Foundation initiatives. Grants are recorded as an expense when they are approved by the Foundation officers for payment and all conditions of the grant have been substantially met by the grantee. The Board of Trustees ratifies grants at their quarterly meetings. Grants payable consist of unconditional amounts awarded, but not paid, to not-for-profit organizations. Grants to be paid after one year are discounted to net present value.

**Funds Held for Others**
The Foundation accounts for assets that are received from a not-for-profit organization for the benefit of that not-for-profit organization, or one of its affiliated organizations, as a liability to the specified beneficiary concurrent with its recognition of the assets received. All asset transfers of this type, and the activity associated with those assets, are recognized as agency transactions and are not reflected in the consolidated statements of activities. In the consolidated statements of financial position, the assets held on behalf of the agency are included in cash and investments, and the related liability is classified as funds held for others. Assets and liabilities related to such funds totaled approximately $51,454,000 and $37,510,000 at June 30, 2019 and 2018, respectively.

**Split-Interest Agreements and Gift Annuities**
Under charitable remainder trust and annuity agreements, the Foundation pays annual benefits from the trust's assets over the term of the trust to third-party beneficiaries, with remaining trust assets at the end of the trust's term being distributed to the Foundation and/or other charities as directed by the trust instrument. Under charitable gift annuities, assets received are available for immediate use by the Foundation, and annual benefits paid from Foundation assets are distributed to third-party beneficiaries over the term of the agreement. See Note 6 for additional information regarding the Foundation's split-interest agreements, including charitable gift annuities.

**Investment Income**
Investment income is recorded when earned and consists of interest, dividends, and realized and unrealized gains on investments. Investment income immediately reinvested is reflected simultaneously as investment income and purchases of investments. Investment income is net of net of external and direct internal investment expenses.

**Rental Revenue**
The Foundation, as a lessor, retains substantially all of the risks and benefits of ownership of the investment properties and accounts for all related leases as operating leases. Minimum rents are accrued on a straight-line basis over the terms of their respective leases, and the resulting deferred lease asset is included in other assets on the consolidated statements of financial position. Certain retail tenants are also required to pay overage rents based on sales over a stated base amount during the lease year.

## Note 1 – Summary of Significant Accounting Policies (continued)

### Rental Revenue, continued

Certain leases require the tenant to reimburse the Foundation for a substantial portion of the operating expenses, including common area maintenance, real estate taxes and insurance. Operating expenses typically include utilities, insurance, security, janitorial, landscaping, and other administrative expenses. The reimbursable portions of these tenant expenses are recognized as revenue (and receivable) in the period the applicable expenditures are incurred, and are included in other income in the consolidated statements of activities.

### Functional Allocation of Expenses

Expenses which apply to more than one functional category have been allocated among program, general and administrative, and development based on the time spent on these functions by specific employees. Indirect expenses such as facilities costs are allocated based on square footage used by functional departments. Other indirect expenses, such as those related to information technology, are allocated based on the overall number of staff in the various functional categories. All other costs are charged directly to the appropriate functional category.

### Income Tax Matters

The Community Foundation and the Supporting Organizations are exempt from federal income tax under Section 501(a) of the Internal Revenue Code (IRC), as organizations described in IRC Section 501(c)(3), and have been determined not to be private foundations under Section 509(a) of the IRC. Accordingly, no provision for income taxes has been made related to the Foundation; however, should the Foundation engage in activities unrelated to the purpose for which it was created, taxable income could result. For the year ended June 30, 2019, the Foundation has accrued approximately $250,000 in estimated taxes which is reflected in other expenses in the consolidated statement of functional expenses. This tax is the result of gains on the sale of property by a corporation that was previously donated. No taxes were incurred for the year ended June 30, 2018.

### Accounting for Uncertain Tax Positions

The ASC provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Foundation's tax returns to determine whether the tax positions are more likely than not of being sustained when challenged or when examined by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expense and liability in the current year. Management has determined that there are no material uncertain income tax positions.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Fair Value Measurements**
The Foundation follows ASC Topic 820, *Fair Value Measurements*, which provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The inputs to the three levels of the fair value hierarchy under Topic 820 are described as follows:

Level 1 Unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from, or corroborated by, observable market data by correlation to 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 Unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. All transfers between fair value hierarchy levels are recognized by the Foundation at the end of each reporting period.

Financial assets and liabilities carried at fair value on recurring basis include investments, beneficial interest in charitable remainder trust, cash surrender value of life insurance policies, and funds held for others.

**Recent Accounting Pronouncements**
In June of 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958*, Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for the Foundation's year ending June 30, 2020. Earlier application is permitted. The Foundation is currently assessing the potential impact of this ASU on its financial statements.

## Note 1 – Summary of Significant Accounting Policies (continued)

### Recent Accounting Pronouncements, continued

In May of 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, FASB issued ASU No. 2015-14 which defers the effective date of ASU No. 2014-09 one year making it effective for the Foundation's year ending June 30, 2020. Early adoption is permitted. The Foundation is currently evaluating the effect implementation of ASU No. 2014-09 will have on its financial statements.

### Reclassifications

Certain balances in the June 30, 2018 consolidated financial statements, have been reclassified to be consistent with the current year presentation. These reclassifications had no impact on net assets or changes in net assets.

### Subsequent Events

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

## Note 2 – Liquidity and Availability

Financial assets available for general expenditure, including grants, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position sheet date, comprise the following (in thousands):

| | Years Ended June 30, 2019 | 2018 |
|---|---|---|
| Financial assets | | |
| Cash and cash equivalents | $ 19,544 | $ 29,788 |
| Interest, dividends, and other receivables | 1,885 | 1,487 |
| Contributions receivable | 7,932 | 11,848 |
| Investments | 1,041,964 | 1,006,423 |
| Beneficial interest in charitable remainder trusts | 6,886 | 6,643 |
| Other investments | 15,295 | 15,508 |
| | 1,093,506 | 1,071,697 |
| Less amounts unavailable for general expenditure | | |
| Contributions receivable beyond one year | (3,582) | (3,617) |
| Investments not convertible to cash within year | (32,233) | (18,050) |
| Investments and financial assets held for others | (51,454) | (37,510) |
| Endowments and accumulated earnings subject to appropriation beyond one year | (183,671) | (162,720) |
| Investments in board designated endowments | (24,191) | (24,007) |
| Beneficial interest in charitable remainder trusts | (10,480) | (10,226) |
| Other investments, illiquid | (15,295) | (15,508) |
| Financial assets available to meet the cash needs for general expenditures within one year | $ 772,600 | $ 800,059 |

### Note 2 – Liquidity and Availability (continued)

The Foundation has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due. The Foundation invests cash in excess of daily requirements in short-term investments and money market funds.

### Note 3 – Contributions Receivable

Unconditional contributions receivable, including amounts due under pledge agreements, are expected to be collected as follows at June 30 (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Less than one year | $ 4,350 | $ 8,231 |
| One year to five years | 3,582 | 3,617 |
| Total | $ 7,932 | $ 11,848 |

The Foundation believes all contributions receivable will be fully collected. Due to the timing of the expected payments, discounts of approximately $153,000 and $137,000 were recorded as of June 30, 2019 and 2018, respectively using a discount rate of 1.94 to 2.86 percent.

At June 30, 2019 and 2018, conditional promises to give totaled approximately $0 and $548,000, respectively. These conditional contributions will be recorded as revenue when the related conditions have been substantially met.

### Note 4 – Property and Equipment

Property and equipment are summarized as follows at June 30 (in thousands):

| | June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Land | $ 22,414 | $ 22,774 |
| Building | 44,292 | 43,950 |
| Furniture | 1,266 | 1,251 |
| Office equipment | 92 | 138 |
| Computer equipment and software | 1,320 | 1,187 |
| Construction in progress | 44 | - |
| Total | 69,428 | 69,300 |
| Less accumulated depreciation | (24,699) | (22,727) |
| Total property and equipment | $ 44,729 | $ 46,573 |

Depreciation expense related to the property and equipment totaled approximately $2,060,000 and $1,728,000 in 2019 and 2018, respectively.

**Note 5 – Grants Payable**

Grants approved and committed for future payment are as follows at June 30, 2019 (in thousands):

| Grants Payable in Years Ending June 30, | | |
|---|---|---|
| 2020 | $ | 11,694 |
| 2021 | | 6,156 |
| 2022 | | 2,390 |
| 2023 | | 1,318 |
| 2024 | | 311 |
| Thereafter | | 760 |
| | | 22,629 |
| Less unamortized discount (0.95%-3.16%) | | (401) |
| Total grants payable | $ | 22,228 |

Conditional grants totaled approximately $612,500 and $2,536,000 at June 30, 2019 and 2018, respectively, and are not recorded as expense until the conditions are substantially met by the grantee. Substantially all conditional grants are contingent upon the grantee raising matching funds or achievement of milestones specified in the terms of the respective grant.

**Note 6 – Split-Interest Agreements**

At June 30, 2019 and 2018, the Foundation had recorded approximately $7,953,000 and $7,933,000, respectively, in fair value of charitable gift annuities and charitable remainder trusts in which the Foundation serves as the trustee, as an asset in its consolidated statements of financial position. Assets received under these agreements are recorded at fair value and in the appropriate net asset category. Related contributions per the agreements are recognized as contribution revenue and are equal to the present value of future benefits to be received by the Foundation over the term of the agreements. The Foundation received contribution revenue related to these agreements of approximately $280,000 and $300,000 during the years ended June 30, 2019 and 2018, respectively. Liabilities have been established for split-interest agreements in which the Foundation is the trustee or for which the Foundation is obligated to an annuitant under a charitable gift annuity and these liabilities totaled approximately $3,167,000 and $3,145,000 at June 30, 2019 and 2018, respectively. For split-interest agreements in which the Foundation is the trustee but is not the charitable beneficiary (or not the only charitable beneficiary), the Foundation has established liabilities to the other not-for-profit organizations, and this obligation totaled approximately $427,000 and $438,000 at June 30, 2019 and 2018, respectively.

**Note 6 – Split-Interest Agreements (continued)**

Some of the Foundation's charitable remainder trusts (included in assets above) are income trusts. Under these agreements, payments to lead beneficiaries (i.e., the individual designated by the donor) are limited to the income earned by the trust and as such a liability to the lead beneficiary is not recorded. Gifts of income trusts are recorded at fair value on the gift date. The fair value of the contribution is the fair value of the assets to be received in the future, discounted for the life expectancy of the lead beneficiary. The difference between the fair value of the assets when received and the fair value of the contribution is recognized as deferred revenue in the statements of financial position and totaled approximately $256,000 and $281,000 at June 30, 2019 and 2018, respectively. The discount will be amortized over the term of the trusts as a decrease in deferred revenue and an increase in change in value of split-interest agreements in the consolidated statements of activities.

During the term of the agreements, changes in the value of the split-interest agreements are recognized in the consolidated statements of activities based on accretion of the discounted amount of the contribution, and reevaluations of the expected future benefits (payments) to be received (paid) by the Foundation (beneficiaries), based on changes in life expectancy from mortality tables using annual Internal Revenue Service discount rates and other assumptions. Discount rates ranging from 2.2 percent to 6.92 percent were used in these calculations at the dates of the contributions.

The Foundation is the beneficiary of irrevocable charitable remainder trusts held by financial institutions. The beneficial interest is carried at fair value, which is based on the present value of the future distributions expected to be received over the term of the agreements. The Foundation had no contribution revenue related to these agreements in 2019 and 2018. The estimated fair value of the Foundation's beneficial interests total approximately $6,886,000 and $6,643,000 at June 30, 2019 and 2018, respectively. Changes in fair value of the beneficial interests are reflected as a change in value of split-interest agreements in the consolidated statements of activities.

## Note 7 – Total Net Asset Composition

Total net asset composition (in thousands):

| | June 30, 2019 | | |
|---|---|---|---|
| | Without Donor Restriction | With Donor Restriction | Total |
| Endowment funds | $ 24,191 | $ 196,999 | $ 221,190 |
| Non-endowment funds | | | |
| Donor advised | 221,268 | - | 221,268 |
| Donor purpose restricted | - | 10,864 | 10,864 |
| Non-donor advised | 133,142 | - | 133,142 |
| Total non-endowment funds | 354,410 | 10,864 | 365,274 |
| Split-interest agreements | 725 | 9,752 | 10,477 |
| Total Community Foundation net assets | 379,326 | 217,615 | 596,941 |
| Supporting organizations (non-donor advised) | 456,906 | 8,417 | 465,323 |
| Total net assets | $ 836,232 | $ 226,032 | $ 1,062,264 |

| | June 30, 2018 | | |
|---|---|---|---|
| | Without Donor Restriction | With Donor Restriction | Total |
| Endowment funds | $ 24,007 | $ 176,915 | $ 200,922 |
| Non-endowment funds | | | |
| Donor advised | 228,620 | - | 228,620 |
| Donor purpose restricted | - | 12,728 | 12,728 |
| Non-donor advised | 128,824 | - | 128,824 |
| Total non-endowment funds | 357,444 | 12,728 | 370,172 |
| Split-interest agreements | 549 | 9,410 | 9,959 |
| Total Community Foundation net assets | 382,000 | 199,053 | 581,053 |
| Supporting organizations (non-donor advised) | 465,689 | 8,823 | 474,512 |
| Total net assets | $ 847,689 | $ 207,876 | $ 1,055,565 |

With donor restriction net assets include contributions received with endowment restrictions, time restrictions, and those received under split-interest agreements with an implied time restriction. In addition, the Foundation continues to classify contributions (and related net assets) received under gift instruments (generally grants), which specifically do not reference variance power and require the return of assets if not used for the donor-specified purpose until such funds are expended in accordance with the donor-restricted purpose as with donor restriction.

Net assets consisting of the initial fair value of the gifts where the donor has specified that the assets donated are to be retained in an endowment, providing a permanent source of revenue for charitable purposes are classified as with donor restriction. The accumulation of assets above the historic gift value, in donor restricted endowment funds is classified as with donor restriction until appropriated based on the Foundation’s spending policy. Donor-restricted endowment funds in which variance power is not referenced in the gift instrument and based on the Foundation's legal opinion are not spendable through action of the Board of Trustees. The donor restricted endowment corpus amounts were approximately $97,722,000 and $89,863,000, as of June 30, 2019 and 2018.

**Note 7 – Total Net Asset Composition (continued)**

The Foundation manages approximately 600 donor-advised funds. Although grant recommendations are accepted from the donors or other advisors of these funds, the ultimate discretion of the use of these funds lies with the Board of Trustees. Non-donor advised funds represent amounts held by the Foundation designated for specific purposes by donors and/or the Foundation.

**Note 8 – Endowment Funds**

Endowment net asset composition (in thousands):

| | June 30, 2019 | | |
|---|---|---|---|
| | Without Donor Restriction | With Donor Restriction | Total |
| Donor-restricted endowment funds | $ - | $ 196,999 | $ 196,999 |
| Board-designated endowment funds | 24,191 | - | 24,191 |
| Total endowment funds | $ 24,191 | $ 196,999 | $ 221,190 |

| | June 30, 2018 | | |
|---|---|---|---|
| | Without Donor Restriction | With Donor Restriction | Total |
| Donor-restricted endowment funds | $ - | $ 176,915 | $ 176,915 |
| Board-designated endowment funds | 24,007 | - | 24,007 |
| Total endowment funds | $ 24,007 | $ 176,915 | $ 200,922 |

**Note 8 – Endowment Funds (continued)**

Changes in endowment net assets are summarized as follows (in thousands):

| | June 30, 2019 | | |
|---|---|---|---|
| | Without Donor Restriction | With Donor Restriction | Total |
| Endowment net assets, at July 1, 2018 | $ 24,007 | $ 176,915 | $ 200,922 |
| Investment income, net | 1,057 | 8,027 | 9,084 |
| Contributions | - | 5,243 | 5,243 |
| Other income (loss) | - | (156) | (156) |
| Donor-directed reclassifications | - | 11,519 | 11,519 |
| Appropriation of endowment assets | (873) | (4,549) | (5,422) |
| Endowment net assets, at June 30, 2019 | $ 24,191 | $ 196,999 | $ 221,190 |

| | June 30, 2018 | | |
|---|---|---|---|
| | Without Donor Restriction | With Donor Restriction | Total |
| Endowment net assets, at July 1, 2017 | $ 23,484 | $ 164,657 | $ 188,141 |
| Investment income, net | 1,617 | 10,880 | 12,497 |
| Contributions | - | 2,164 | 2,164 |
| Other income | 2 | 280 | 282 |
| Donor-directed reclassifications | - | 4,573 | 4,573 |
| Appropriation of endowment assets | (1,096) | (5,639) | (6,735) |
| Endowment net assets, at June 30, 2018 | $ 24,007 | $ 176,915 | $ 200,922 |

**Note 9 – Employee Benefit Plans**

**Defined Contribution Plan**
The Foundation has a defined contribution plan that covers all full-time employees of the Foundation who have attained the age of eighteen. Participating employees can contribute on a voluntary basis up to 82 percent of eligible earnings, not to exceed the amount allowed by law. The Foundation makes matching contributions on a discretionary basis, as determined by the Board of Trustees. In addition, all full-time employees with more than six months of service receive a safe harbor contribution of at least 3 percent of their annual salary. Costs associated with the defined contribution plan, including contributions, were approximately $696,000 and $592,000 for the years ended June 30, 2019 and 2018, respectively.

**Deferred Compensation Plan**
In 2017, the Foundation initiated a deferred compensation plan under Section 457(b) of the Internal Revenue Code for certain senior executives. Eligible employees may elect to make contributions to the plan under a salary reduction agreement. No employer contributions are made to the plan. The plan liability of approximately $142,000 and $87,000 as of June 30, 2019 and 2018, respectively, is an unsecured obligation of the Foundation and is reflected in accounts payable and accrued liabilities in the consolidated statements of position.

**Note 10 – Concentrations and Credit Risk**

At June 30, 2019 and 2018, the Foundation maintained uninsured balances of cash and cash equivalents of approximately $18,406,000 and $31,020,000, respectively, in depository accounts with financial institutions. The Foundation monitors financial institution concentrations and does not anticipate any losses from these concentrations.

Net contributions receivable of 91 percent and 85 percent were due from three donors at June 30, 2019 and 2018, respectively.

The Foundation maintains formal investment policies that set out performance criteria, provide investment guidelines and require regular review of investment performance. The Foundation works with an investment consultant to review performance and evaluate investments managers. Investments are managed by multiple investment managers, who have responsibility for investing the funds according to the Foundation's investment policy. Risk is managed through rigorous evaluations performed before an investment is made, quarterly monitoring of performance and regular communication with the investment managers.

**Note 11 – Fair Value Measurements**

The Board of Trustees of the Community Foundation, as outlined in its bylaws, appoints an Investment Committee responsible for the overall management of the investments of the Community Foundation and the W.W. Caruth, Jr. Foundation. This responsibility includes the hiring and termination of investment managers, investment consultant(s), custodian banks and securities lending agents. The investment department of the Community Foundation is responsible for sourcing, evaluating, and selecting investments for recommendation to the Investment Committee. They are also responsible for the day-to-day operations involving due diligence and other testing procedures in regards to reviewing the reasonableness of fair value for all investments, which includes evaluating the accuracy and adequacy of information provided by custodians, brokers and managers. The valuation process for investments is the responsibility of the investment department of the Community Foundation and all other fair value measurements are the responsibility of the accounting department of the Community Foundation. Fair value measurements for beneficial interests in charitable remainder trusts and liabilities associated with split-interest agreements are prepared by the accounting department of the Community Foundation and approved by the Board of Trustees during their review and approval of the periodic internal financial statements of the Foundation. The Board of Directors of the Supporting Organizations perform these functions for the supporting organizations.

**Note 11 – Fair Value Measurements (continued)**

The methods and assumptions used to estimate the fair value of assets and liabilities in the financial statements, including a description of the methodologies used for the classifications within the fair value hierarchy, are as follows:

**Cash and Cash Equivalents**
The carrying amount of the assets approximates fair value due to its short maturity.

**Interest, Dividends, and Other Receivables**
The asset is carried at cost, which approximates fair value due to the short maturity of such amounts.

**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. Risks associated with individual gifts are assessed annually through the Foundation's review of the status of each gift. 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 and due to inclusion of a discount to net present value and allowance for uncollectible accounts the carrying value approximates fair value.

**Investments**
All of the marketable securities are valued by nationally recognized third-party pricing services. Each organization within the Foundation gives highest priority to quoted prices in active markets for identical assets accessed at the measurement date. An active market for the asset is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis and the Foundation 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, using the market approach.

Level 2 inputs under the market approach include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there is not sufficient activity, and/or where price quotations vary substantially either over time or among market makers, or in which little information is released publicly. In certain cases, where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

Nonmarketable securities are carried at fair value which is based on NAV as provided by the fund manager and/or adjusted by the Foundation. The Foundation uses management agreements, analyst notes, audited financial statements, and underlying investment holdings to evaluate the fund manager's valuation methodology (i.e., in determining whether the fund manager follows ASC 820, *Fair Value Measurements*) and considers various other factors including contributions and withdrawals to the fund and monitoring unaudited interim reporting to determine if any adjustment to the NAV is necessary.

**Note 11 – Fair Value Measurements (continued)**

**Beneficial Interests in Charitable Remainder Trusts**
The beneficial interest is carried at fair value, which is based on the present value of the expected future cash inflows from the trusts. The fair value of the underlying trust assets is based on quoted market prices when available or the best estimate of fair value as determined by the third-party trustee. The Foundation's valuation technique considers the fair value of the assets held in the trust and applies a discount rate to convert such amounts to a single present value amount. The discount rate used by the Foundation reflects current market conditions including the inherent risk in the underlying assets and the risk of nonperformance by the trustee. Due to the significant unobservable inputs required to estimate the expected future cash receipts from the trust agreements under the income approach, the Foundation's beneficial interest is classified as Level 3 in the hierarchy.

**Cash Surrender Value of Life Insurance Policies**
The asset's carry amount is the current cash surrender values on life insurance policies for which the Foundation is the beneficiary.

**Accounts Payable, Accrued Liabilities and Deferred Revenue**
The carrying amount of the liability approximates fair value due to its short maturity.

**Grants Payable**
The carrying amount of the liability is based on the discounted value of the expected future cash distributions, which approximates fair value.

**Liabilities Associated with Split-Interest Agreements**
The fair value of the liabilities is determined by discounting the future cash flows at rates that could currently be negotiated by the Foundation for borrowings of similar amounts. The carrying value approximates the liabilities' fair value.

## Note 11 – Fair Value Measurements (continued)

Assets and liabilities measured at fair value on a recurring basis are classified within the fair value hierarchy as follows at June 30 (in thousands):

| | June 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | NAV | Total |
| Assets | | | | | |
| Investments | | | | | |
| Marketable securities | | | | | |
| Cash equivalents and short-term funds | $ 13,752 | $ 77,401 | $ - | $ - | $ 91,153 |
| Government securities and municipal bonds | 1,060 | 1,262 | - | - | 2,322 |
| Corporate bonds | 3,789 | 1,433 | - | - | 5,222 |
| Equities | | | | | |
| U.S. equities | 67,241 | - | - | - | 67,241 |
| International equities | 50,577 | - | - | - | 50,577 |
| Real estate investment trusts (REITs) | 32,236 | 1,120 | - | - | 33,356 |
| Mutual funds | 145,041 | - | - | - | 145,041 |
| Investments measured at net asset value | - | - | - | 647,052 | 647,052 |
| Total investments | 313,696 | 81,216 | - | 647,052 | 1,041,964 |
| Beneficial interest in charitable remainder trusts | - | - | 6,886 | - | 6,886 |
| Cash surrender value of life insurance policies | - | 169 | - | - | 169 |
| Total assets | $313,696 | $ 81,385 | $ 6,886 | $647,052 | $1,049,019 |
| Liabilities | | | | | |
| Funds held for others | - | | - | 51,454 | 51,454 |
| | $ - | $ - | $ - | $ 51,454 | $ 51,454 |

| | June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | NAV | Total |
| Assets | | | | | |
| Investments | | | | | |
| Marketable securities | | | | | |
| Cash equivalents and short-term funds | $ 7,701 | $ 81,835 | $ - | $ - | $ 89,536 |
| Government securities and municipal bonds | 121 | 1,280 | - | - | 1,401 |
| Corporate bonds | - | 64 | - | - | 64 |
| Equities | | | | | |
| U.S. equities | 75,650 | - | - | - | 75,650 |
| International equities | 53,885 | - | - | - | 53,885 |
| Real estate investment trusts (REITs) | 35,237 | - | - | - | 35,237 |
| Mutual funds | 186,990 | - | - | - | 186,990 |
| Investments measured at net asset value | - | - | - | 563,660 | 563,660 |
| Total investments | 359,584 | 83,179 | - | 563,660 | 1,006,423 |
| Beneficial interest in charitable remainder trusts | - | - | 6,643 | - | 6,643 |
| Cash surrender value of life insurance policies | - | 176 | - | - | 176 |
| Total assets | $359,584 | $ 83,355 | $ 6,643 | $563,660 | $1,013,242 |
| Liabilities | | | | | |
| Funds held for others | - | - | - | 37,510 | 37,510 |
| | $ - | $ - | $ - | $ 37,510 | $ 37,510 |

### Note 11 – Fair Value Measurements (continued)

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows (in thousands):

| | Beneficial Interests in Charitable Remainder Trusts |
|---|---|
| Balance at June 30, 2017 | $ 6,733 |
| Contributions | - |
| Sales and distributions | (385) |
| Change in value of split-interest agreements | 295 |
| Balance at June 30, 2018 | $ 6,643 |
| Contributions | - |
| Sales and distributions | (135) |
| Change in value of split-interest agreements | 378 |
| Balance, at June 30, 2019 | $ 6,886 |

The summary of changes in fair value of Level 3 assets has been prepared to reflect the activity in the same categories as those provided in the consolidated statements of activities.

The following table summarizes the valuation techniques and significant unobservable inputs used for the Foundation's assets that is categorized within Level 3 of the fair value hierarchy (in thousands):

| Investment Type | Fair Value at June 30 2019 | Fair Value at June 30 2018 | Valuation Techniques | Unobservable Input (b) | Range of Inputs (Weighted Average) June 30 2019 | Range of Inputs (Weighted Average) June 30 2018 |
|---|---|---|---|---|---|---|
| Beneficial interest in charitable remainder trusts | $ 6,886 | $ 6,643 | Discounted cash flows | Discount rate [a] Expected rate of return [c] | 2.2 to 6% (3.62%) | 2.2 to 6% (4.24%) |

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

[b] Significant increases or decreases in any of the above unobservable inputs in isolation may result in a significantly lower or higher fair value.

[c] Represents the net fair value of assets to be paid to the Foundation based on terms stated in the trust agreement.

**Note 11 – Fair Value Measurements (continued)**

The Foundation's investments in certain entities that calculate NAV and for which there is not a readily determinable fair value are summarized as follows (in thousands):

| | | Fair Value June 30, 2019 | Unfunded Commitments June 30, 2019 | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|---|
| Index funds | (a) | $ 275,823 | $ - | Daily | 2 days |
| Equity fund | (b) | 13,522 | - | Monthly | 30 days |
| International fund | (c) | 36,968 | - | Monthly | 30 days |
| Emerging market funds | (d) | 77,190 | - | Daily, Monthly | 2 to 90 days |
| Bond funds | (e) | 84,690 | - | Daily | 15 days |
| Fund of funds | (f) | 25,399 | - | Quarterly, Annually, Semi-Annual | 6 to 60 days or N/A |
| Hedge funds | (g) | 81,519 | - | Quarterly, Annually, Semi-Annual | 30 to 60 days |
| Private-equity funds | (h) | 51,941 | 19,231 | N/A | N/A |
| Total | | $ 647,052 | $ 19,231 | | |

(a) This class includes commingled equity index funds that invest in large, mid and small cap domestic public equities. No accounts have short positions.

(b) This class includes commingled funds that invests in domestic public equities. The account has no short positions.

(c) This class includes commingled funds that invests in large and mid-cap international public equities. This account has no short positions.

(d) This class includes commingled emerging market equity index funds. This class may invest in derivatives.

(e) This class includes a commingled fund that invests in fixed income markets across the globe.

(f) Fund of funds consist of investment funds that are designed to invest in diversified holdings. Management of the fund has the ability to hold a net long or net short position. The fair value of investments in this category have been provided by the underlying hedge fund managers.

(g) This class includes commingled funds that provide exposure to a diverse array of absolute return oriented strategies, some implemented by single-strategy specialist and others pursued by managers employing multiple techniques. These strategies may include but are not limited to long / short equity, event-driven investing, capital structured arbitrage and fixed income arbitrage.

(h) These funds consist of investments in private equity funds and similar investment funds that are generally designed for long-term investment strategies by investing in companies whose stock is not publically traded, bank debt, real estate, or similar investment securities. Distributions are typically based on capital transactions and other liquidity events within the underlying investment funds. The investments in this category cannot currently be redeemed by the Foundation and the ultimate outcome of liquidity events and overall duration of the funds cannot reasonably be determined.

### Note 12 – Leases

The Foundation leases office, retail and restaurant space as well as certain agricultural land to independent third parties. These leases expire over the next 19 years.

Future minimum rental income under non-cancelable operating leases include the following at June 30, 2019 (in thousands):

| For Years Ending June 30, | |
|---|---|
| 2020 | $ 4,560 |
| 2021 | 4,494 |
| 2022 | 3,384 |
| 2023 | 1,997 |
| 2024 | 1,377 |
| Thereafter | 7,696 |
| Total | $ 23,508 |

This amount does not include contingent rentals that may be received under certain leases of retail space that are based on a percentage of revenues. There was no revenue from contingent rentals in 2019 and 2018. The Foundation recognized lease income, included in other income in the consolidated statements of activities, of approximately $5,418,000 and $5,305,000 for the years ended June 30, 2019 and 2018, respectively.

### Note 13 – Other Investments

The Foundation's other investments are comprised of equity interests in privately held corporations, limited partnerships, and limited liability companies which do not have readily determinable fair values. Based on evaluation, the Foundation has determined that its investment in three entities should be reported under the equity method and that all other investments should be reported at cost. Under the equity method, the initial investment is reflected at cost and adjusted for the equity in the undistributed net earnings (losses) since acquisition. The Foundation’s ownership in the largest investment was 22.61 percent for the years ended June 30, 2019 and 2018. The Foundation owned 50.0 percent and 14.3 percent in the remaining two investments for the years ended June 30, 2019 and 2018.

The Foundation reported total investments carried under the equity method of approximately $13,369,000 at June 30, 2019 and 2018. The Foundation recognized earnings related to its investments carried under the equity method of approximately $1,159,000 and $1,040,000 for the years ended June 30, 2019 and 2018, respectively, which are included in other income in the consolidated statements of activities. All earnings were distributed and cash was received by the Foundation for the years ended June 30, 2019 and 2018.

**Note 13 – Other Investments (continued)**

Summarized financial information for the Foundation's three investments accounted for under the equity method is as follows at June 30 (in thousands):

The Foundation's other investments with a carrying value of approximately $1,926,000 and $2,139,000 at June 30, 2019 and 2018, respectively, are comprised of limited partnership and limited liability company interests reported at cost. No events or changes in circumstances occurred in 2019 or 2018 resulting in an impairment evaluation.

| | 2019 Unaudited | 2018 Unaudited |
|---|---|---|
| Current assets | $ 4,049 | $ 3,326 |
| Non-current assets | 40,201 | 40,431 |
| Total assets | $ 44,250 | $ 43,757 |
| Current liabilities | $ 359 | $ 358 |
| Non-current liabilities | 228 | 182 |
| Total liabilities | 587 | 540 |
| Equity | 43,663 | 43,217 |
| Total liabilities and equity | $ 44,250 | $ 43,757 |
| Gross revenue | $ 12,700 | $ 12,235 |
| Less total expenses | 7,408 | 8,571 |
| Net earnings | $ 5,292 | $ 3,664 |

**Note 14 – Commitments and Contingencies**

A supporting organization entered a funding agreement with a university which committed to annual contributions of approximately 90 percent of the lesser of net income (excluding gain on the sale or exchange of property held for sale) or net cash flow from operating activities of the supporting organization, both determined under U.S. GAAP, for each calendar year immediately preceding each program year. However, such minimum annual contribution for each program year would not exceed the target contribution level for each program year. The funding agreement was intended to continue in perpetuity unless, over time, the supporting organization made special contributions aggregating $25,000,000.

In November 2017, the supporting organization superseded the previous agreement by approving a funding agreement to the university totaling $15,000,000 over 10 years. This commitment was fully paid in December 2017.

**Note 14 – Commitments and Contingencies (continued)**

A supporting organization has been named a joint pledge member in the amount of $10,000,000. All joint pledge members are related parties of the supporting organization. The total amount of the pledge, paid in annual installments, was to be paid in full on or before July 1, 2019. As a joint pledge member, payments may or may not be paid using the supporting organization's funds. For each of the years ended June 30, 2019 and 2018, the supporting organization funded $1,000,000 towards the pledge. The total commitment remaining from the joint pledge members as of June 30, 2019 was $0.

Finally, a supporting organization was named a joint pledge member in a joint pledge totaling $5,000,000. The pledge will be paid in five annual installments beginning in July 2020. As a joint pledge member, payments may or may not be paid using the supporting organization's funds.