Public Welfare Foundation, Inc.

Financial Statements
Years Ended September 30, 2015 and 2014

Public Welfare Foundation, Inc.

Financial Statements

Years ended September 30, 2015 and 2014

Contents

BDO

Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive
Suite 800
McLean, VA 22102

Independent Auditor's Report

To the Board of Directors
Public Welfare Foundation, Inc.
Washington, D.C.

We have audited the accompanying financial statements of **Public Welfare Foundation, Inc.** (the Foundation), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities, 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 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of **Public Welfare Foundation, Inc.** as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

June 15, 2016

Financial Statements

Public Welfare Foundation, Inc.

Statements of Financial Position

September 30,		**2015**		2014
Assets				
Cash and cash equivalents	**$**	**9,929,938**	$	13,201,429
Due from stockbrokers for securities with settlements pending		**537,090**		10,422,242
Accrued interest and dividends receivable		**109**		164
Investments, at fair value:				
Short-term investments		**4,699,748**		6,417,184
Equity securities:				
Commingled funds		**128,981,226**		156,753,862
Debt securities:				
Commingled funds		**135,366,194**		125,355,840
Other investments		**192,974,155**		199,315,699
Total investments		**462,021,323**		487,842,585
Prepaid expenses, taxes, and other assets		**517,245**		124,587
Deferred federal excise taxes receivable		**216,477**		-
Property and equipment, net		**9,710,964**		9,946,927
Total assets	**$**	**482,933,146**	$	521,537,934
Liabilities and net assets				
Liabilities				
Accrued expenses, taxes, and other liabilities	**$**	**255,251**	$	283,517
Deferred federal excise tax liability		**-**		712,231
Grants payable		**3,886,500**		3,805,315
Bonds payable		**10,800,000**		10,800,000
Total liabilities		**14,941,751**		15,601,063
Commitments and contingencies				
Unrestricted net assets		**467,991,395**		505,936,871
Total liabilities and net assets	**$**	**482,933,146**	$	521,537,934

See accompanying notes to financial statements.

Public Welfare Foundation, Inc.

Statements of Activities

Years ended September 30,	**2015**	2014
Investment income and expense		
Interest and dividends	**$ 2,068,214**	$ 2,882,444
Other investment funds gain, net	**29,867,521**	64,222,004
Total net income	**31,935,735**	67,104,448
Realized gain on sale of equity and debt securities, and other investments, net	**1,914,478**	32,783,400
Unrealized loss on equity and debt securities, and other investments, net	**(46,435,350)**	(40,255,714)
Total net investment loss	**(44,520,872)**	(7,472,314)
Total investment (loss) income	**(12,585,137)**	59,632,134
Investment advisory, custodial fees and investment expenses	**(897,643)**	(816,531)
Net investment (loss) income and expense	**(13,482,780)**	58,815,603
Expenses		
Program expenses:		
Grants approved, net of return	**20,851,476**	20,845,454
Administrative expenses:		
Salaries and fringe benefits	**1,898,929**	1,937,733
Professional and consulting fees	**539,019**	513,367
Other administrative expenses	**1,595,218**	1,442,380
	24,884,642	24,738,934
Provision for federal excise and other taxes	**(211,661)**	444,688
Total expenses	**24,672,981**	25,183,622
Net operating (loss) income	**(38,155,761)**	33,631,981
Other income		
Class action settlements	**44,120**	12,177
Rental and other miscellaneous income	**166,165**	152,252
Total other income	**210,285**	164,429
Change in unrestricted net assets	**(37,945,476)**	33,796,410
Unrestricted net assets, beginning of year	**505,936,871**	472,140,461
Unrestricted net assets, end of year	**$ 467,991,395**	$ 505,936,871

See accompanying notes to financial statements.

Public Welfare Foundation, Inc.

Statements of Cash Flows

Years ended September 30,		**2015**		2014
Cash flows from operating activities				
Change in unrestricted net assets	**$**	**(37,945,476)**	$	33,796,410
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:				
Depreciation and amortization		**397,483**		372,198
Loss on disposal of property and equipment		**-**		7,478
Net realized gain on sale of equity and debt securities, and other investments		**(1,914,478)**		(32,783,400)
Net unrealized loss on equity and debt securities, and other investments		**46,435,350**		40,255,714
Other investment funds gain		**(29,867,521)**		(64,222,004)
(Increase) decrease in assets				
Due from stockbrokers for securities with settlements pending		**9,885,152**		(10,156,582)
Accrued interest and dividends receivable		**55**		(33)
Prepaid expenses, taxes, and other assets		**(392,658)**		802,923
Increase (decrease) in liabilities				
Accrued expenses, taxes, and other liabilities		**(28,266)**		(53,658)
Deferred federal excise tax asset/liability		**(928,708)**		(768,280)
Grants payable		**81,185**		410,315
Net cash used in operating activities		**(14,277,882)**		(32,338,919)
Cash flows from investing activities				
Acquisition of property and equipment		**(161,520)**		(160,278)
Proceeds from sale and distributions of investments		**122,289,303**		286,011,950
Purchases of investments		**(111,121,392)**		(249,192,378)
Net cash provided by investing activities		**11,006,391**		36,659,294
Net (decrease) increase in cash and cash equivalents		**(3,271,491)**		4,320,375
Cash and cash equivalents, beginning of year		**13,201,429**		8,881,054
Cash and cash equivalents, end of year	**$**	**9,929,938**	$	13,201,429

See accompanying notes to financial statements.

1. Organization

Public Welfare Foundation, Inc. (the Foundation) was established in 1947, incorporated in Texas and reincorporated in Delaware in 1951, for the purpose of supporting benevolent, charitable, educational or missionary organizations that advance justice and opportunity for people in need. These efforts honor the Foundation's core values of racial equality, economic well-being, and fundamental fairness for all. The Foundation's grantmaking is organized around the following major program areas: Criminal Justice, Juvenile Justice, and Workers' Rights, with a special initiative on Civil Legal Aid for the poor. Revenues earned are generated by the Foundation's investments. The Foundation uses that investment income to fund grants to those organizations and other related expenses.

2. Summary of Significant Accounting Policies

This summary of significant accounting policies of the Foundation is presented to assist in understanding the Foundation's financial statements. The financial statements and notes are representations of the Foundation's management who is responsible for their integrity and objectivity.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting estimates reflected in the Foundation's financial statements include the determination of fair value of investments and the calculation of federal excise and income taxes. Actual results could differ from those estimates.

Basis of Accounting

The financial statements of the Foundation are presented in conformity with accounting principles generally accepted in the United States of America and have been prepared using the accrual basis of accounting, which includes recognition of revenue as earned and expenses as incurred.

Cash and Cash Equivalents

The Foundation considers all highly liquid instruments, which have an original maturity of three months or less, to be cash and cash equivalents except for the cash reserve portions of the long-term investment accounts which are recorded with short-term investments in the statements of financial position.

Financial Instruments and Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and investments held at creditworthy financial institutions. Throughout the year, the Foundation's cash accounts at times have exceeded the federally insured limit. The Foundation has not experienced losses in these accounts. The Foundation believes it is not exposed to any significant credit risk on its cash and cash equivalents. By policy, investments are kept within limits designed to prevent risks caused by concentration.

Amounts Due From/To Stockbrokers for Securities with Settlements Pending

The amounts due from (to) stockbrokers for securities with settlements pending result from sales (purchases) of securities made prior to the end of the fiscal year but settled after the fiscal year-end.

Investments

Short-term investments held for reinvestment are included with investments. Investments are stated at fair value. Fair value of investments in marketable securities that are traded on a national securities exchange or listed on NASDAQ are based on current quoted market prices. Investments in limited partnership and other investment funds that invest in marketable securities are valued based on market values of the underlying securities.

In the absence of an active market for such investments, the fair values of investments in limited partnerships and other investment funds that invest in nonmarketable securities, real estate, and oil and gas interests are based upon audited partnership financial statements, adjusted for cash flows and significant unrealized gains and losses for the years ended September 30, 2015 and 2014. A change in the estimated value may occur in the near term.

Because of the inherent uncertainty of valuation, estimated values may differ significantly from values that would have been used had a ready market for investments existed, and the differences could be material.

Purchases and sales of securities are recorded on a trade-date basis. Realized gains or losses are determined using the proceeds from sales on a first-in, first-out basis. Unrealized gains or losses are determined using quoted market prices and fair values at the respective year-ends. Other investment funds' gains and losses are comprised of the return recognized from limited partnerships and other investment funds.

Property and Equipment

Property and equipment is stated at cost. Depreciation and amortization is provided by the straight-line method over 3 to 40 years. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred. Expenditures for additions, improvements, and replacements are capitalized and property replaced is accounted for as retirements. The Foundation capitalizes purchases above $1,000 with a useful life greater than one year or that result in the betterment of an existing capital asset.

Impairment of Long-Lived Assets

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Deferred Federal Excise Tax

Deferred taxes arise due to temporary differences between reported amounts of investments and their tax basis. Deferred taxes also arise for the difference between the cash basis used for tax purposes and the accrual basis used for financial statement purposes for investment activities.

Grants Expense

Grants are expensed when they are approved by the Board of Directors or the President of the Foundation. Grants paid over more than one year are recorded at the net present value of the future payments. Grant refunds and cancellations are recorded as reductions of grant expense upon receipt of notification from the grantee.

Tax-Exempt Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is a private foundation under Section 509(a) of the Internal Revenue Code. The Foundation is subject to federal excise tax as well as federal and state unrelated business income tax.

Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The update provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern. The update also provides related disclosures. The ASU will be effective for periods beginning after December 15, 2016. This guidance is effective for the Foundation's fiscal year 2018. Management is currently determining the impact that adopting of this guidance will have on the Foundation's financial statements.

In May 2015, the FASB issued ASU 2015-07*, Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in ASU 2015-07 remove 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. The amendments also remove 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. The ASU will be effective for periods beginning after December 15, 2015. This guidance is effective for the Foundation's fiscal year 2017. Management is currently determining the impact that adopting of this guidance will have on the Foundation's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which is the leasing standard for both lessees and lessors. Under this update, a lessee will recognize lease assets and liabilities on the statement of financial position for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. GAAP. The ASU will be effective for periods beginning after December 15, 2018. This guidance is effective for the Foundation's fiscal year 2020. Management is currently determining the impact that adopting of this guidance will have on the Foundation's financial statements.

3. Investments

Investments held consist of the following as of September 30:

	2015	2014
Short-term	**$ 4,699,748**	$ 6,417,184
Equity securities:		
Commingled funds:		
Commonfund State Street Global Advisor (SSgA) Global Natural Resources Stock Index	**15,297,570**	9,048,934
Commonfund Institutional Multi-Strategy Commodities Fund	**6,608,313**	8,950,441
Commonfund Strategic Solutions (SS) Diversifying Company A01 Fund	**10,482,270**	11,708,449
Commonfund SS Diversifying Company A30 Fund	**-**	1,995,280
Commonfund SS Equity Fund	**8,247,282**	7,544,233
Commonfund European Equity Fund	**25,977,015**	19,720,285
Commonfund GLG Global Equity Fund	**31,937,810**	46,236,004
Commonfund SSgA MSCI Japan Index Fund	**9,717,926**	13,754,213
Commonfund Emerging Markets Quantitative Focus Fund	**3,150,471**	9,821,817
Harding Loevner Global Equity Fund	**17,562,569**	27,974,206
	128,981,226	156,753,862
Debt securities:		
Commonfund Institutional Global Bond Fund	**13,705,144**	14,892,767
Commonfund SSgA US Aggregate Bond Index Fund	**39,714,617**	35,413,982
Commonfund All Blue LTD	**10,232,383**	-
Commonfund Brigade Leverage Capital	**9,470,322**	-
Commonfund Hudson Bay International	**10,048,700**	-
Commonfund Western Asset Macro Opportunities Direct Feeder Fund	**10,004,247**	-
Income Research & Management (IRM) Core Bond Fund	**42,190,781**	40,659,393
Western Asset Management Company	**-**	34,389,698
	135,366,194	125,355,840

	2015	2014
Other investment funds:		
Adage Capital Partners, LP	**85,979,611**	88,544,959
Blakeney, LP	**12,141,770**	15,088,938
Carmel Partners Investment Fund, LP	**50,785**	3,549,645
Carmel Partners Investment Fund II, LP	**2,082,467**	4,673,816
Carmel Partners Investment Fund III, LP	**6,061,839**	5,371,220
Commonfund Capital International Partners IV, LP	**1,633,612**	2,261,828
Commonfund Capital International Partners VII, LP	**3,399,655**	2,584,775
Commonfund Capital Private Equity V, LP	**2,103,802**	2,477,661
Commonfund Capital Private Equity VII, LP	**8,713,029**	8,334,642
Commonfund Capital Private Equity VIII, LP	**3,187,661**	1,987,695
Commonfund Global Distressed Debt Partners II, LP	**834,843**	1,265,397
Commonfund Global Distressed Partners III, LP	**2,071,345**	2,777,600
Commonfund Global Distressed Partners IV, LP	**1,655,700**	1,943,695
Commonfund Capital Venture Partners IX, LP	**12,040,094**	8,784,759
Commonfund Capital Venture Partners X, LP	**4,332,053**	2,095,212
Commonfund Capital Venture Partners XI, LP	**557,224**	-
Commonfund Capital Natural Resources IX, LP	**3,174,906**	2,136,613
Commonfund Capital Natural Resources X, LP	**58,720**	-
Commonfund Strategic Solutions Core Real Estate, LP	**7,884,482**	6,907,558
Commonfund Strategic Solutions Real Estate Opportunities Fund 2011, LP	**7,706,078**	6,876,992
Commonfund Strategic Solutions Real Estate Opportunities Fund 2014, LP	**4,874,414**	-
Commonfund Capital Strategic Solutions Global Private Equity Fund, LP	**1,439,335**	-
Goldman Sachs Global Event Driven PLC	**53,417**	67,796
Goldman Sachs Global Relative Value PLC	**1**	1
Liquid Realty Partners IV, LP	**868,482**	753,666
Liquid Realty Partners IV Tax Exempt AIV, LP	**219,559**	265,769
Merit Energy Partners C – II, LP	**3,098,666**	6,686,188
Merit Energy Partners D – II, LP	**3,453,641**	6,560,160
Merit Energy Partners F – II, LP	**1,977,661**	3,276,877
Merit Energy Canada, LP	**2,571,421**	2,586,874
Merit Energy Canada II, LP	**48,312**	53,585
TIFF Partners IV, LLC	**705,754**	1,353,837
TIFF Realty & Resources I, LLC	**1,239,901**	2,339,626
TIFF Partners V – US, LLC	**986,447**	1,186,930
TIFF Partners V – International, LLC	**730,312**	926,037
Tuckerbrook – Medley, LP	**577,239**	589,817
Tuckerbrook – Styx, LP	**57,315**	69,743
Tuckerbrook – Special Situations Fund, LP	**151,897**	64,641
Tuckerbrook SB Global Distressed Fund I, LP	**4,250,705**	4,871,147
	192,974,155	199,315,699
Total	**$ 462,021,323**	$ 487,842,585

Investment cost, net (depreciation) appreciation, and fair market value by investment type consist of the following as of September 30:

2015	Cost	Net Depreciation	Fair Value
Short-term investments	**$ 4,699,748**	**$ -**	**$ 4,699,748**
Equity securities:			
Commingled funds	**141,280,297**	**(12,299,071)**	**128,981,226**
Debt securities:			
Commingled funds	**134,559,613**	**806,581**	**135,366,194**
Other investments	**192,305,492**	**668,663**	**192,974,155**
Total	**$ 472,845,150**	**$ (10,823,827)**	**$ 462,021,323**

2014	Cost	Net Appreciation	Fair Value
Short-term investments	$ 6,417,184	$ -	$ 6,417,184
Equity securities:			
Commingled funds	156,157,170	596,692	156,753,862
Debt securities:			
Commingled funds	121,356,142	3,999,698	125,355,840
Other investments	168,300,563	31,015,136	199,315,699
Total	$ 452,231,059	$ 35,611,526	$ 487,842,585

The Foundation has commitments to make additional investments of $58,496,785 in other investment funds as of September 30, 2015. The Foundation cannot withdraw from the partnership investments prior to their termination, pursuant to the partnership agreements, and there are restrictions on the transferability of the Foundation's interest in these partnerships. Some partnerships have exit dates pursuant to the partnership agreement.

4. Fair Value Measurements

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the value:

Cash and short-term investments

The carrying value approximates fair value because of the short maturity of those instruments.

Long-term investments

The fair values are based on quoted market prices for marketable investments, which include equity and debt securities. For other investments for which there are no quoted market prices, the fair value has been based on audited partnership financial statements, corporate interest financial statements, and equity and debt securities financial statements, adjusted for cash flows and significant unrealized losses through the years ended September 30, 2015 and 2014.

Grants payable

The fair value of grants payable is based on present value calculations using rates established for United States Treasury Bills with similar terms as the grants.

Bonds payable

The fair value of the bonds is estimated based on current rates offered on long-term Treasury Bills. The discount rate utilized was 2.51% (2.98% for 2014).

The estimated value of the Foundation's financial instruments is as follows at September 30:

	2015 Carrying Amount	2015 Fair Value	2014 Carrying Amount	2014 Fair Value
Assets				
Cash and short-term investments	**$ 14,629,686**	**$ 14,629,795**	$ 19,618,613	$ 19,618,613
Long-term investments	**$ 457,321,575**	**$ 457,321,575**	$ 481,425,401	$ 481,425,401
Liabilities				
Grants payable	**$ 3,886,500**	**$ 3,886,500**	$ 3,805,315	$ 3,805,315
Bonds payable	**$ 10,800,000**	**$ 8,807,814**	$ 10,800,000	$ 7,818,834

The following methods and assumptions were used by the Foundation in estimating the fair value of financial instruments. The Foundation is subject to the provisions of FASB Accounting Standards Codification (ASC) 820-10, *Fair Value Measurement.* ASC 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820-10 permits the Foundation, as a practical expedient, to estimate fair value of investments based on the net asset value ("NAV") per share, or its equivalent, if the NAV of such investments is calculated in a manner consistent with the measurement principles of ASC 946, *Financial Services – Investment Companies,* in arriving at their reported NAV. As defined in ASC 820-10, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Foundation utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Foundation primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Foundation is able to classify fair value balances based on the observability of those inputs.

The Foundation's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels. Also, the time between inception and performance of the contract may affect the fair value. The determination of fair value may, therefore, affect the timing of recognition of revenues and the change in unrestricted net assets.

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The categorization of an investment within the hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment. The three levels of fair value hierarchy are as follows:

Level 1 Inputs: Valuation based on quoted prices in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs: Valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, that is markets in which there are few transactions, prices are not current, or prices vary substantially over time.

Level 3 Inputs: Valuation based on inputs that are unobservable for an asset or liability and shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This input therefore reflects the Foundation's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The Foundation's other investments are held in limited partnerships and corporate interests which are valued based on level 3 inputs within the hierarchy used in measuring fair value. Given the absence of market quotations, their fair value is estimated by management using information provided to the Foundation by the investment manager. The values are based on estimates that require varying degrees of judgments. Individual holdings within the limited partnerships and corporate interests may include investments in both nonmarketable and market-traded securities. Nonmarketable securities may include equity in private companies, real estate, and other investment vehicles. The investments may directly expose the Foundation to the effects of securities lending, short sales of securities, and trading in futures and forward contracts, options, swap contracts, and other derivative products. While these financial instruments contain varying degrees of risk, the Foundation's exposure with respect to each such investment is limited to its carrying amount (fair value as described above) in each investment.

The Foundation does not directly invest in the underlying securities of the investment funds and due to restrictions on transferability and timing of withdrawals from the limited partnerships and corporate interests, the amounts ultimately realized upon liquidation could differ from reported values that are based on current conditions.

The following table presents the Foundation's assets that are measured at fair value on a recurring basis as of September 30, 2015:

	Level 1	Level 2	Level 3	Totals
Short-term investments	$ 4,699,748	$ -	$ -	$ 4,699,748
Equity securities:				
Commingled funds	17,562,569	-	8,247,282	25,809,851
Marketable alternatives	-	-	10,482,270	10,482,270
Real assets	-	-	21,905,883	21,905,883
International equity	-	-	70,783,222	70,783,222
Debt securities				
Commingled funds	-	-	135,366,194	135,366,194
Other investment funds:				
Distressed debt	-	-	9,599,044	9,599,044
Domestic equity	-	-	85,979,611	85,979,611
International equity	-	-	12,141,770	12,141,770
Marketable alternatives	-	-	53,418	53,418
Natural resources	-	-	14,383,327	14,383,327
Private equity	-	-	39,828,978	39,828,978
Private real estate	-	-	30,988,007	30,988,007
Total	$ 22,262,317	$ -	$ 439,759,006	$ 462,021,323

The following table presents the Foundation's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in FASB ASC 820-10 for the year ended September 30, 2015:

	Equity Securities	Debt Securities	Other Investments	Total
Beginning balance	$ 128,779,656	$ 125,355,840	$ 199,315,699	$ 453,451,195
Capital calls	-	-	12,933,551	12,933,551
Distributions	(37,366,063)	(51,426,296)	(18,808,609)	(107,600,968)
Purchases	31,916,636	62,911,264	-	94,827,900
Realized (losses) gains	(699,870)	1,718,503	29,867,521	30,886,154
Unrealized (losses)	(11,211,702)	(3,193,117)	(30,334,007)	(44,738,826)
Ending balance	$ 111,418,657	$ 135,366,194	$ 192,974,155	$ 439,759,006

The following table presents the Foundation's assets that are measured at fair value on a recurring basis as of September 30, 2014:

	Level 1	Level 2	Level 3	Totals
Short-term investments	$ 6,417,184	$ -	$ -	$ 6,417,184
Equity securities:				
Commingled funds	27,974,206	-	7,544,233	35,518,439
Marketable alternatives	-	-	13,703,729	13,703,729
Real assets	-	-	17,999,375	17,999,375
International equity	-	-	89,532,319	89,532,319
Debt securities				
Commingled funds	-	-	125,355,840	125,355,840
Other investment funds:				
Distressed debt	-	-	11,582,040	11,582,040
Domestic equity	-	-	88,544,959	88,544,959
International equity	-	-	15,088,938	15,088,938
Marketable alternatives	-	-	67,797	67,797
Natural resources	-	-	21,300,297	21,300,297
Private equity	-	-	31,993,376	31,993,376
Private real estate	-	-	30,738,292	30,738,292
Total	$ 34,391,390	$ -	$ 453,451,195	$ 487,842,585

The following table presents the Foundation's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in FASB ASC 820-10 for the year ended September 30, 2014:

	Equity Securities	Debt Securities	Other Investments	Total
Beginning balance	$ 130,646,889	$ 75,142,862	$ 189,778,107	$ 395,567,858
Capital calls	-	-	9,795,570	9,795,570
Distributions	(143,262,915)	(20,172,137)	(39,964,892)	(203,399,944)
Purchases	131,231,764	67,015,221	-	198,246,985
Realized (losses) gains	19,227,595	(10,255)	64,222,004	83,439,344
Unrealized (losses)	(9,063,677)	3,380,149	(24,515,090)	(30,198,618)
Ending balance	$ 128,779,656	$ 125,355,840	$ 199,315,699	$ 453,451,195

5. Net Asset Value (NAV) Per Share

In accordance with ASU 2009-12, *Fair Value Measurements and Disclosures (Topic 820) – Investment in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent),* the Foundation expanded disclosures to include the category, fair value, redemption frequency, and redemption notice period for those assets whose fair value is estimated using the net asset value per share or its equivalent for which fair value is not readily determinable, as of September 30, 2015. For the Foundation, such assets include the limited partnership investments and non-partnership investments.

The following table sets forth a summary of the Foundation's investments with a reported NAV as of September 30, 2015:

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period (Days)
Non-partnership investments –				
Equity securities				
Commingled Funds (a)	$ 8,247,282	$ -	Quarterly	95
Marketable alternatives (b)	10,482,270	-	Quarterly	95
Real assets (c)	21,905,883	-	Monthly	5
International equity (d)	70,783,222	-	Monthly	5
Non-partnership investments –				
Debt securities				
Commingled Funds (e)	135,366,194	-	Monthly	5
Limited partnerships –				
Other investment funds				
Distressed debt (f)	9,599,044	5,151,442	No immediate liquidity*	n/a
Domestic equity (g)	85,979,611	-	No immediate liquidity*	n/a
International equity (h)	12,141,770	-	No immediate liquidity*	n/a
Marketable alternatives (i)	53,418	5,377,229	No immediate liquidity*	n/a
Natural resources (j)	14,383,327	16,150,000	No immediate liquidity*	n/a
Private equity (k)	39,828,978	25,143,914	No immediate liquidity*	n/a
Private real estate (l)	30,988,007	6,674,200	No immediate liquidity*	n/a
	$439,759,006	$ 58,496,785		

**Non-marketable alternative assets (NMAA), or alternative investments, included above have varying withdrawal restrictions. The typical NMAA fund cycle provides for an initial investment period of 1-5 years, a growth management phase of 2-7 years, and realization/distribution of investment returns over years 7-12.*

(a) Using a multi-manager approach, investments are primarily in a diversified portfolio of common stocks and convertible securities of established companies with market capitalizations in the range of the S&P 500. The objective is to outperform the S&P 500 over a full market cycle.

(b) The marketable alternatives equity securities program uses a multi-manager approach, allocating assets to investment sub-advisors or third party managers. It seeks to achieve its investment objective by outperforming world indexes on a risk-adjusted basis over a full market cycle, while also providing some protection during down markets.

(c) Real assets equity securities investments are made in a broad spectrum of commodity assets including energy, agricultural goods, metals and foreign currencies. This strategy seeks to outperform its benchmarks, the Dow Jones-UBS Commodity Index and the MSCI World Natural Resources index using a multi-manager approach.

(d) The international equity securities program focuses on stocks of companies in foreign countries including companies located in less developed countries in the world. It uses a multi-manager approach, allocating assets to investment sub-advisors or investment funds managed by third party investment managers.

(e) Debt security commingled funds use a multi-manager approach, with allocations to sub-advisors, who use various disciplines to select investments from a universe that includes securities issued by U.S. and foreign governments, their agencies and instrumentalities, and U.S. and foreign corporations. These funds also include hedge funds investing in strategies such as debt and equity of leveraged companies, event driven, long/short credit, structured credit, distressed debt and capital structure arbitrage.

(f) Distressed debt other investment funds seek to generate superior risk-adjusted returns through exposure to a broad group of talented distressed debt managers and distressed debt investments in private equity, hedge funds and partnerships.

(g) The investment objective of the domestic equity other limited partnerships is to provide investors with compounded annual long-term returns that are superior to the S&P 500 Index.

(h) The international equity-other investment limited partnership seeks capital appreciation with low volatility and high absolute returns. It seeks to achieve this by investing primarily in small-cap stocks in companies in Africa and the Middle East.

(i) The investment objective of the marketable alternatives other investment funds is to seek capital appreciation over time by investing in multiple strategies including event driven, special situations, and relative value through investing with multiple managers.

(j) The investment objective of the natural resources other investment funds is to acquire certain passive interests in oil, gas and other natural resource-related investments to obtain long-term growth of capital.

(k) Private equity other investment funds seek to invest primarily in direct or co-investment in operating companies, or in other limited partnerships formed for the purpose of making investments in emerging growth companies. The investment objective is to obtain long-term growth of capital through domestic or global investment.

(l) The investment objective of the private real estate other investment funds is to invest in real estate properties and real estate related assets for capital appreciation and the generation of current income.

The following table presents quantitative information regarding unobservable inputs used in determining fair value of investments classified as Level 3 as of September 30, 2015 as follows:

Investment Type	Fair Value	Principal Valuation Techniques	Unobservable Input	Weighted Average
Non-partnership investments – Equity securities				
Commingled Funds	$ 8,247,282	The principal valuation techniques used by fund managers is to discount cash flows; alternative valuation techniques include utilizing comparable market transactions and market valuations.	Unobservable input for each underlying fund's investment are less any liabilities of the fund discount rate and liquidity discounts	n/a
Marketable alternatives	10,482,270			n/a
Real assets	21,905,883			n/a
International equity	70,783,222			n/a
Non-partnership investments Debt securities				
Commingled Funds	135,366,194			n/a
Limited partnerships – Other Investment funds				
Distressed debt	9,599,044			n/a
Domestic equity	85,979,611			n/a
International equity	12,141,770			n/a
Marketable alternatives	53,418			n/a
Natural resources	14,383,327			n/a
Private equity	39,828,978			n/a
Private real estate	30,988,007			n/a
	$439,759,006			

Level 3 Valuation Process

The Foundation's investment advisor performs on-going due diligence of the funds which includes benchmarking and comparing the results of fund performance to certain indexes such as the S&P Index. The Foundation's investment advisor also conducts regular calls and meetings with fund managers and meets periodically with the Foundation's Finance Committee to report on the performance of the investment portfolio relative to the Foundation's investment policy. There were no changes in valuation techniques noted for these funds for the years ended September 30, 2015 and 2014.

Level 3 Sensitivity of Fair Value Measurements and Changes in Significant Unobservable Inputs

The significant unobservable inputs used in the fair value measurement of the Foundation's investments are subject to market risks resulting from changes in the market value of its investment. Each investment manager's portfolio is audited annually by the respective manager's independent auditors.

6. Property and Equipment

Property and equipment consist of the following as of September 30:

	2015	2014
Building and building improvements	**$ 12,430,959**	$ 12,303,175
Land and land improvements	**1,690,863**	1,690,863
Furniture, fixture and equipment	**1,233,258**	1,199,522
	15,355,080	15,193,560
Less: accumulated depreciation and amortization	**5,644,116**	5,246,633
Total	**$ 9,710,964**	$ 9,946,927

7. Federal Excise and Other Taxes

In accordance with applicable provisions of the Internal Revenue Code, (the Code), the Foundation is subject to federal excise tax imposed on private foundations at 2%, or 1% if certain conditions are met, and is subject to corporate income tax on its unrelated business income. The excise tax is imposed on net investment income, excluding unrealized gains, as defined under federal law. The Foundation has recorded its tax liability utilizing a rate of 2% for the years ended September 30, 2015 and 2014.

The provision for tax expense consists of the following components for the years ended September 30:

	2015	2014
Current	**$ 717,047**	$ 1,212,968
Deferred	**(928,708)**	(768,280)
Total provision for federal excise and other tax expense	**$ (211,661)**	$ 444,688

Current taxes for the years ended September 30, 2015 and 2014 were $717,047 and $1,212,968, respectively. Current taxes are related primarily to federal excise tax and unrelated business income generated as a result of the Foundation's investment income in various states. No provisional estimates for income taxes on the state level have been made as the amounts were deemed to be immaterial in 2015 and 2014.

The Foundation recorded a deferred federal excise tax receivable for the year ended September 30, 2015 at a rate of 2% of net unrealized investment losses in the amount of $216,477. A deferred tax liability of 2% of net unrealized investment gains calculated in the amount of $712,231 was recorded for the year ended September 30, 2014.

In addition, the code requires that certain minimum distributions be made. The Foundation has made the required minimum distributions as of September 30, 2015 and 2014. Under FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely than not that the position will be sustained. The Foundation believes that it has appropriate support for the excise and unrelated business income tax positions taken and, as such, does not have any uncertain tax positions that result in a material impact on the Foundation's financial position or statements of activities.

The Foundation is still open to examination by U.S. tax authorities from fiscal year 2012 forward. The Foundation is also open to examination by state tax authorities for various tax years. For the years ended September 30, 2015 and 2014, no interest or penalties were recorded in the statements of activities that related to amended tax returns.

8. Bonds Payable

On March 30, 2000, the Foundation issued $11,000,000 in variable interest rate District of Columbia Revenue Series Revenue Bonds, maturing on March 1, 2025.

Effective November 1, 2010, the Foundation entered into a new bond agreement with TD Bank who would be the new bond holder of the District of Columbia Revenue Series 2000 Revenue Bonds. Pursuant to the new loan agreement with TD Bank, the bond agreement will mature on November 1, 2025. As part of the agreement, the lender does not have the right to call the principal before the maturity date. However, on July 12, 2011, the Foundation directed the Trustee, on behalf of the District of Columbia, to optionally redeem $200,000 of the bonds, resulting in an outstanding obligation of $10,800,000 as of September 30, 2015 and 2014.

Additionally, effective November 1, 2010, the Foundation amended and restated the Indenture of Trust to revise the term of the District of Columbia Revenue Series 2000 Revenue Bonds, to mature on October 31, 2035.

The interest rate as of September 30, 2015 and 2014, was 1.53% and 1.50%, respectively. Bond interest expense included in other administrative expenses for the years ended September 30, 2015 and 2014 was $167,283 and $166,615, respectively.

9. Salaries and Fringe Benefits

Included in salaries and fringe benefits are contributions to a qualified defined contribution 401(k) plan. The Foundation maintains this plan, established under section 401(k) of the Internal Revenue Code (the Code), for all of its employees. Upon the start of employment, employees may defer a portion of their salary up to the maximum amount allowable under section 415 of the IRC. Employees become eligible for employer contributions upon the completion of one year of service, at which time the Foundation is required to contribute 12% of eligible employees' total compensation to the plan. During 2015 and 2014, the Foundation's contributions to the 401(k) plan and related expenses totaled $182,020 and $192,123, respectively. Participants are fully vested in all contributions.

10. Grants

Grants consisted of the following as of September 30:

	2015	2014
Current year:		
Grants approved	**$ 20,682,126**	$ 20,695,800
Returned grants – current year	**-**	(100)
Deferred multi-year grant discount	**3,685**	(3,685)
Contributed rental space	**165,665**	157,663
	20,851,476	20,849,678
Prior years:		
Returned grants	**-**	(4,224)
Net grants	**$ 20,851,476**	$ 20,845,454

Grants payable were $3,886,500 and $3,805,315 at September 30, 2015 and 2014, respectively.

11. Minimum Distribution Requirement

The Internal Revenue Code requires that qualifying distributions be paid in accordance with a specified formula. At September 30, 2015, the Foundation had excess distributions that can be carried over to fiscal year 2016 of approximately $9,800,000. These carryover distributions can be applied towards the fiscal year 2016 minimum distribution requirement.

12. Supplemental Disclosure of Cash Flow Information

Cash paid for interest and taxes was as follows for the year ended September 30:

	2015	2014
Interest expense paid	**$ 169,376**	$ 172,088
Excise and other taxes paid	**$ 1,101,117**	$ 462,038

13. Commitments

The Foundation and the Washington Legal Clinic for the Homeless (WLCH), a non-profit corporation, executed a new lease agreement effective November 15, 2009 through November 14, 2010. The lease is renewable for additional consecutive one-year periods at WLCH's election. WLCH is required to pay the Foundation an annual Fixed Use Fee of One Dollar per year and has exercised its option to renew on a year-to-year basis.

The fair market value of the rental income and grant expense related to the agreement was $165,665 and $157,663 for the years ended September 2015 and 2014 respectively, and is included in the statements of activities.

14. Subsequent Events

The Foundation evaluated subsequent events through June 15, 2016, which is the date the financial statements were available to be issued. There were no events noted that required adjustment to or disclosure in these financial statements.