Public Welfare Foundation, Inc.

Financial Statements
Years Ended September 30, 2016 and 2015

Public Welfare Foundation, Inc.

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Contents

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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, 2016 and 2015, 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, 2016 and 2015, 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

August 11, 2017

Financial Statements

Public Welfare Foundation, Inc.

Statements of Financial Position

September 30,		2016		2015
Assets				
Cash and cash equivalents	**$**	**5,858,528**	$	9,929,938
Due from stockbrokers for securities with settlements pending		**181,216**		537,090
Accrued interest and dividends receivable		**1,788**		109
Investments, at fair value:				
Short-term investments		**3,701,378**		4,699,748
Equity securities:				
Commingled funds		**126,656,496**		128,981,226
Debt securities:				
Commingled funds		**137,137,240**		135,366,194
Other investments		**204,568,680**		192,974,155
Total investments		**472,063,794**		462,021,323
Prepaid expenses, taxes, and other assets		**1,060,771**		517,245
Deferred federal excise taxes receivable		**-**		216,477
Property and equipment, net		**8,855,632**		9,227,610
Total assets	**$**	**488,021,729**	$	482,449,792
Liabilities and net assets				
Liabilities				
Accrued expenses and other liabilities	**$**	**272,976**	$	255,251
Deferred federal excise taxes liability		**394,377**		-
Grants payable		**1,542,000**		3,886,500
Bonds payable		**10,347,579**		10,316,646
Total liabilities		**12,556,932**		14,458,397
Commitments and contingencies				
Unrestricted net assets		**475,464,797**		467,991,395
Total liabilities and net assets	**$**	**488,021,729**	$	482,449,792

See accompanying notes to financial statements.

Public Welfare Foundation, Inc.

Statements of Activities

	2016	2015
Investment income and expense		
Interest and dividends	**$ 1,356,204**	$ 2,068,214
Other investment funds gain, net	**4,688,969**	29,867,521
Total net income	**6,045,173**	31,935,735
Realized (loss) gain on sale of equity and debt securities, and other investments, net	**(4,975,264)**	1,914,478
Unrealized gain (loss) on equity and debt securities, and other investments, net	**30,703,986**	(46,435,350)
Total net investment gain (loss)	**25,728,722**	(44,520,872)
Total investment income (loss)	**31,773,895**	(12,585,137)
Investment advisory, custodial fees and investment expenses	**(742,303)**	(897,643)
Net investment income (loss) and expense	**31,031,592**	(13,482,780)
Expenses		
Program expenses:		
Grants approved, net of return	**18,537,741**	20,851,476
Administrative expenses:		
Salaries and fringe benefits	**2,005,157**	1,898,929
Professional and consulting fees	**782,598**	539,019
Other administrative expenses	**1,626,140**	1,595,218
	22,951,636	24,884,642
Provision for federal excise and other taxes	**780,523**	(211,661)
Total expenses	**23,732,159**	24,672,981
Net operating income (loss)	**7,299,433**	(38,155,761)
Other income		
Class action settlements	**7,348**	44,120
Rental and other miscellaneous income	**166,621**	166,165
Total other income	**173,969**	210,285
Change in unrestricted net assets	**7,473,402**	(37,945,476)
Unrestricted net assets, beginning of year	**467,991,395**	505,936,871
Unrestricted net assets, end of year	**$ 475,464,797**	$ 467,991,395

See accompanying notes to financial statements.

Public Welfare Foundation, Inc.

Statements of Cash Flows

	2016	2015
Cash flows from operating activities		
Change in unrestricted net assets	**$ 7,473,402**	$ (37,945,476)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	**406,322**	397,483
Net realized loss (gain) on sale of equity and debt securities, and other investments	**4,975,264**	(1,914,478)
Net unrealized (gain) loss on equity and debt securities, and other investments	**(30,703,986)**	46,435,350
Other investment funds gain	**(4,688,969)**	(29,867,521)
(Increase) decrease in assets		
Due from stockbrokers for securities with settlements pending	**355,874**	9,885,152
Accrued interest and dividends receivable	**(1,679)**	55
Prepaid expenses and other assets	**(543,526)**	(392,658)
Increase (decrease) in liabilities		
Accrued expenses and other liabilities	**17,725**	(28,266)
Deferred federal excise tax asset and liability	**610,854**	(928,708)
Grants payable	**(2,344,500)**	81,185
Net cash used in operating activities	**(24,443,219)**	(14,277,882)
Cash flows from investing activities		
Acquisition of property and equipment	**(3,411)**	(161,520)
Proceeds from sale and distributions of investments	**110,346,710**	122,289,303
Purchases of investments	**(89,971,490)**	(111,121,392)
Net cash provided by investing activities	**20,371,809**	11,006,391
Net decrease in cash and cash equivalents	**(4,071,410)**	(3,271,491)
Cash and cash equivalents, beginning of year	**9,929,938**	13,201,429
Cash and cash equivalents, end of year	**$ 5,858,528**	$ 9,929,938

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 grant making is organized around the following major program areas: Criminal Justice, Youth Justice (formerly known as 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

Investments are comprised of short-term investments, commingled equity and debt securities, as well as, other investments held. Due to 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 and is depreciated and amortized using 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 may 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.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the current year presentation.

Recently Adopted Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure 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 a substantial doubt about an entity's ability to continue as a going concern and related disclosures. The Foundation has elected to early adopt ASU 2014-15 in its fiscal year 2016 as permitted. Management has assessed the Foundation's ability to continue as a going concern and is not aware of any material uncertainties related to events or conditions, which may cast significant doubt upon its ability to continue as a going concern. The adoption of this guidance had no impact on the Foundation's financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs.* ASU 2015-03 requires debt issuance to be presented as a direct deduction from the debt liability rather than as a deferred asset. The Foundation has elected to early adopt ASU 2015-03 in its fiscal year 2016 as permitted, with retrospective application to fiscal year 2015. The adoption of this ASU did not have a material effect 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 (NAV) per share as a 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 as a practical expedient. The Foundation has elected to early adopt ASU 2015-07 in its fiscal year 2016 as permitted, and the presentation in Note 4 has been applied retrospectively. The adoption of this ASU did not have a material effect on the Foundation's financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.* This update provides guidance on simplifying the presentation of deferred income taxes. Prior to the adoption of ASU 2015-17, deferred income tax liabilities and assets could be separated into current and non-current amounts while ASU 2015-17 amends the standard to require that deferred tax liabilities and assets be classified as non-current. The Foundation elected early adoption of the standard on a retrospective basis and implemented ASU 2015-17 for the year ended September 30, 2016. The adoption of this ASU did not have a material effect on the Foundation's financial statements.

Recent Accounting Pronouncements Not Yet Implemented

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.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, improves the presentation of financial statements of not-for-profit entities such as charities, foundations, universities, and nonprofit health care providers, etc. The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. This guidance is effective for the Foundation's fiscal year 2019. Management is currently determining the impact that adopting this guidance will have on the Foundation's financial statements.

3. Investments

Investments held consist of the following as of September 30:

		2016		2015
Short-term	$	3,701,378	$	4,699,748
Equity securities:				
Commingled funds:				
Commonfund State Street Global Advisor (SSgA) Global Natural Resources Stock Index		18,470,277		15,297,570
Commonfund Institutional Multi-Strategy Commodities Fund, Ltd		6,568,698		6,608,313
Commonfund Strategic Solutions (SS) Diversifying Company A01 Fund		10,912,092		10,482,270
Commonfund SS Equity Fund, LLC		16,458,036		8,247,282
Commonfund European Equity Fund, LLC		-		25,977,015
CF-GLG Global Equity Strategy Portfolio, LLC		-		31,937,810
Commonfund International Focus Fund I, LLC		19,972,370		-
Commonfund SSgA MSCI Japan Index Fund		15,240,558		9,717,926
Commonfund EM Quantitative Focus Fund, LLC		787,930		3,150,471
Harding Loevner Global Equity Fund		15,182,435		17,562,569
CF T. Rowe Price European Equity Fund		23,064,100		-
		126,656,496		128,981,226
Debt securities:				
Commonfund Institutional Global Bond Fund		15,109,585		13,705,144
Commonfund SSgA US Aggregate Bond Index Non-Lending Common Trust Fund		38,554,916		39,714,617
Commonfund All Blue LTD		-		10,232,383
Commonfund Brigade Leverage Capital Structure Offshore		10,550,380		9,470,322
Commonfund Hudson Bay International		7,528,575		10,048,700
Commonfund Caxton Global Investments		9,761,680		-
Commonfund Western Asset Macro Opportunities Direct Feeder Fund		11,045,160		10,004,247
Income Research & Management (IRM) Core Bond Fund		44,586,944		42,190,781
		137,137,240		135,366,194

	2016	2015
Other investments:		
Adage Capital Partners, LP	**99,081,364**	85,979,611
Blakeney, LP	**9,276,369**	12,141,770
Carmel Partners Investment Fund, LP	**35,212**	50,785
Carmel Partners Investment Fund II, LP	**1,672,200**	2,082,467
Carmel Partners Investment Fund III, LP	**4,441,562**	6,061,839
Commonfund Capital International Partners IV, LP	**1,016,062**	1,633,612
Commonfund Capital International Partners VII, LP	**3,801,227**	3,399,655
Commonfund Capital Private Equity Partners V, LP	**1,395,289**	2,103,802
Commonfund Capital Private Equity Partners VII, LP	**8,343,818**	8,713,029
Commonfund Capital Private Equity Partners VIII, LP	**3,817,651**	3,187,661
Commonfund Global Distressed Investors, LLC	**1,329,318**	1,655,700
Commonfund Distressed Debt Partners II, LP	**557,668**	834,843
Commonfund Global Distressed Partners III, LP	**1,503,987**	2,071,345
Commonfund Capital Venture Partners IX, LP	**12,662,207**	12,040,094
Commonfund Capital Venture Partners X, LP	**5,380,115**	4,332,053
Commonfund Capital Venture Partners XI, LP	**969,571**	557,224
Commonfund Capital Natural Resource Partners IX, LP	**6,384,665**	3,174,906
Commonfund Capital Natural Resource Partners X, LP	**828,122**	58,720
Commonfund Strategic Solutions Core Real Estate, LP	**8,617,057**	7,884,482
Commonfund Strategic Solutions Real Estate Opportunity Fund 2011, LP	**6,942,355**	7,706,078
Commonfund Strategic Solutions Real Estate Opportunity Fund 2014, LP	**7,871,919**	4,874,414
Commonfund Capital Strategic Solutions Global Private Equity Fund, LP	**2,403,142**	1,439,335
Goldman Sachs Global Event Driven PLC	**53,712**	53,417
Goldman Sachs Global Relative Value PLC	**1**	1
Liquid Realty Partners IV, LP	**190,617**	868,482
Liquid Realty Partners IV Tax Exempt AIV, LP	**226,149**	219,559
Merit Energy Partners C – II, LP	**1,985,426**	3,098,666
Merit Energy Partners D – II, LP	**2,593,030**	3,453,641
Merit Energy Partners F – II, LP	**1,919,656**	1,977,661
Merit Energy Canada, LP	**2,570,612**	2,571,421
Merit Energy Canada II, LP	**47,865**	48,312
TIFF Partners IV, LLC	**411,316**	705,754
TIFF Realty & Resources I, LLC	**848,039**	1,239,901
TIFF Partners V – US, LLC	**637,551**	986,447
TIFF Partners V – International, LLC	**333,374**	730,312
Tuckerbrook – Medley, LP (CK Pearl Fund, LP)	**563,070**	577,239
Tuckerbrook – Styx Partners, LP	**44,999**	57,315
Tuckerbrook – Special Situations Fund, LP	**134,598**	151,897
Tuckerbrook SB Global Distressed Fund I, LP	**3,677,785**	4,250,705
	204,568,680	192,974,155
Total	**$ 472,063,794**	$ 462,021,323

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

	2016		
	Cost	Net Appreciation	Fair Value
Short-term investments	**$ 3,701,378**	**$ -**	**$ 3,701,378**
Equity securities:			
Commingled funds	**127,134,976**	**(478,480)**	**126,656,496**
Debt securities:			
Commingled funds	**129,578,177**	**7,559,063**	**137,137,240**
Other investments	**191,930,435**	**12,638,245**	**204,568,680**
Total	**$ 452,344,966**	**$ 19,718,828**	**$ 472,063,794**

	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

The Foundation has committed to make additional investments of $49,997,110 in other investment funds as of September 30, 2016. 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. 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.

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, 2016 and 2015.

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 1.60% (2.06% for 2015).

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

	2016		2015	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets				
Cash and short-term investments	**$ 9,559,906**	**$ 9,561,694**	$ 14,629,686	$ 14,629,795
Long-term investments	**$ 468,362,416**	**$ 468,362,416**	$ 457,321,575	$ 457,321,575
Liabilities				
Grants payable	**$ 1,542,000**	**$ 1,542,000**	$ 3,886,500	$ 3,886,500
Bonds payable	**$ 10,800,000**	**$ 9,214,816**	$ 10,800,000	$ 8,807,814

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 NAV. 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.

As disclosed in Note 2, Summary of Significant Accounting Polices, the Foundation adopted ASU 2015-07, and the investments measured at fair value using NAV or its equivalent as a practical expedient and are included in the fair value hierarchy as a reconciling item.

The following table presents the Foundation's assets that are measured at fair value on a recurring basis as of September 30, 2016:

	Level 1	Level 2	Level 3	NAV*	Totals
Short-term investments	$ 3,701,378	$ -	$ -	$ -	$ 3,701,378
Equity securities:					
Commingled funds	15,182,435	-	-	16,458,036	31,640,471
Marketable alternatives	-	-	-	10,912,092	10,912,092
Real assets	-	-	-	25,038,975	25,038,975
International equity	-	-	-	59,064,958	59,064,958
Debt securities:					
Commingled funds	-	-	-	137,137,240	137,137,240
Other investments:					
Domestic equity	-	-	-	99,081,364	99,081,364
International equity	-	-	-	9,276,369	9,276,369
Distressed debt	-	-	-	7,811,425	7,811,425
Marketable alternatives	-	-	-	53,712	53,712
Natural resources	-	-	-	16,329,376	16,329,376
Private equity	-	-	-	41,171,324	41,171,324
Private real estate	-	-	-	30,845,110	30,845,110
Total	$ 18,883,813	$ -	$ -	$ 453,179,981	$ 472,063,794

**Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statements of financial position.*

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	NAV*	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 investments:					
Domestic equity	-	-	-	85,979,611	85,979,611
International equity	-	-	-	12,141,770	12,141,770
Distressed debt	-	-	-	9,599,044	9,599,044
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

**Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statements of financial position.*

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, 2016. 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, 2016:

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period (Days)
Equity securities				
Commingled Funds (a)	$ 16,458,036	$ -	Quarterly	95
Marketable alternatives (b)	10,912,092	-	Quarterly	95
Real assets (c)	25,038,975	-	Monthly	5
International equity (d)	59,064,958	-	Monthly	5
Debt securities				
Commingled Funds (e)	137,137,240	-	Monthly	5
Other investments				
Domestic equity (f)	99,081,364	-	Quarterly	60
International equity (g)	9,276,369	-	Quarterly	90
Distressed debt (h)	7,811,425	5,151,442	No immediate liquidity*	n/a
Marketable alternatives (i)	53,712	-	No immediate liquidity*	n/a
Natural resources (j)	16,329,376	13,825,000	No immediate liquidity*	n/a
Private equity (k)	41,171,324	21,510,915	No immediate liquidity*	n/a
Private real estate (l)	30,845,110	9,509,753	No immediate liquidity*	n/a
	$ 453,179,981	$ 49,997,110		

**Alternative investments listed above have varying withdrawal restrictions. The typical alternative investment 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.*

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)
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
Debt securities				
Commingled Funds (e)	135,366,194	-	Monthly	5
Other investment funds				
Domestic equity (f)	85,979,611	-	Quarterly	60
International equity (g)	12,141,770	-	Quarterly	90
Distressed debt (h)	9,599,044	5,151,442	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		

**Alternative investments listed above have varying withdrawal restrictions. The typical alternative investment 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 Bloomberg 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) 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.

(g) 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.

(h) 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.

(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.

6. Property and Equipment

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

	2016	2015
Building and building improvements	**$ 11,692,649**	$ 11,692,649
Land and land improvements	**1,690,863**	1,690,863
Furniture, fixture and equipment	**1,236,669**	1,233,258
	14,620,181	14,616,770
Less: accumulated depreciation and amortization	**5,764,549**	5,389,160
Total	**$ 8,855,632**	$ 9,227,610

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

		2016		2015
Current	**$**	**169,669**	$	717,047
Deferred		**610,854**		(928,708)
Total provision for federal excise and other tax expense	**$**	**780,523**	$	(211,661)

Current taxes for the years ended September 30, 2016 and 2015 were $169,669 and $717,047, respectively. The Foundation has recorded its tax liability utilizing a rate of 1% and 2% for the years ended September 30, 2016 and 2015, 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 2016 and 2015.

The Foundation recorded a deferred federal excise tax liability for the year ended September 30, 2016 at a rate of 2% of net unrealized investment gains in the amount of $394,377. A deferred tax asset of 2% of net unrealized investment losses calculated in the amount of $216,477 was recorded for the year ended September 30, 2015.

In addition, the code requires that certain minimum distributions be made. The Foundation has made the required minimum distributions as of September 30, 2016 and 2015. 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 2013 forward. The Foundation is also open to examination by state tax authorities for various tax years. For the years ended September 30, 2016 and 2015, 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, 2016 and 2015.

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, 2016 and 2015, was 1.74% and 1.53%, respectively. Bond interest expense included in other administrative expenses for the years ended September 30, 2016 and 2015 was $182,646 and $167,283, respectively.

The Foundation adopted ASU 2015-03 to better reflect the Foundation's debt obligation net of deferred assets. The net debt obligation is comprised of capitalized interest and various legal and consulting fees that were incurred to facilitate the acquisition of the tax exempt bonds.

The transition method is based upon the actual cost of the deferred assets amortized and deducted from total outstanding bonds payable. No adjustments were required for book purposes. The new standard has resulted in a modified presentation for financial statement purposes only. Prior financial statement presentation reflected the debt obligation and the corresponding deferred assets at their gross value as liabilities and assets, respectively.

The financial statements reflect the liability for bonds payable as of September 30, offset by related debt issuance costs. Amortization of capitalized interest and refinancing costs of $30,933 were recognized in both 2016 and 2015. Net bonds payable as of September 30:

	2016	2015
Bonds payable	**$ 10,800,000**	$ 10,800,000
Less: capitalized interest refinancing costs, net	**452,421**	483,354
Net bonds payable	**$ 10,347,579**	$ 10,316,646

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 2016 and 2015, the Foundation's contributions to the 401(k) plan and related expenses totaled $184,418 and $182,020, respectively. Participants are fully vested in all contributions.

10. Grants

Grants consisted of the following as of September 30:

	2016	2015
Current year:		
Grants approved	**$ 18,371,120**	$ 20,682,126
Deferred multi-year grant discount	**-**	3,685
Contributed rental space	**166,621**	165,665
Net grants	**$ 18,537,741**	$ 20,851,476

Grants payable were $1,542,000 and $3,886,500 at September 30, 2016 and 2015, respectively.

11. Minimum Distribution Requirement

The Internal Revenue Code requires that qualifying distributions be paid in accordance with a specified formula. At September 30, 2016, the Foundation had excess distributions that can be carried over to fiscal year 2017 of approximately $8,100,000. These carryover distributions can be applied towards the fiscal year 2017 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:

	2016	2015
Interest expense paid	**$ 182,753**	$ 169,376
Excise and other taxes paid	**$ 726,831**	$ 1,101,117

13. Commitments

The Foundation and the Washington Legal Clinic for the Homeless (WLCH), a non-profit corporation, are committed under a lease agreement effective through November 14, 2017. 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.

The fair market value of the rental income and grant expense related to the agreement was $166,621 and $165,665 for the years ended September 2016 and 2015, respectively, and is included in the statements of activities.

14. Subsequent Events

The Foundation evaluated subsequent events through August 11, 2017, 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.