

**GREATER HOUSTON COMMUNITY FOUNDATION
AND AFFILIATES**

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board
Greater Houston Community Foundation
Houston, Texas

We have audited the accompanying combined financial statements of Greater Houston Community Foundation and Affiliates (all Texas non-profit corporations or trusts), which comprise the combined statement of financial position as of December 31, 2016 and the related combined statements of activities and cash flows for the year 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 combined financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined 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 combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Greater Houston Community Foundation and Affiliates as of December 31, 2016, and the changes in their nets assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental schedule of combined statement of activities net of funds held for others is presented for the purpose of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Report on 2015 Summarized Comparative Information and Supplementary Information

We have previously audited Greater Houston Community Foundation's 2015 financial statements and supplementary information, and our report dated April 7, 2016, expressed an unmodified opinion on those financial statements and supplementary information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harper & Pearson Company, P.C.

Houston, Texas
April 13, 2017

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

ASSETS	2016	2015
Cash and cash equivalents	\$ 108,301,751	\$ 77,360,255
Marketable investments	486,182,545	434,168,564
Contributions and other receivables, net	415,721	192,137
Interest receivable	191,803	189,898
Limited marketable investments	32,730,971	34,039,417
Notes receivable	3,795,774	3,906,851
Split interest agreements	7,372,000	7,786,000
Other investments	156,600	562,700
Property and equipment, net	2,004,298	2,079,185
Deposits and other assets	<u>491,899</u>	<u>684,863</u>
 TOTAL ASSETS	 <u>\$ 641,643,362</u>	 <u>\$ 560,969,870</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other liabilities	\$ 897,418	\$ 910,542
Note payable	-	2,000,000
Grants payable	3,491,196	4,036,656
Funds held for others	<u>13,084,814</u>	<u>14,992,302</u>
 TOTAL LIABILITIES	 <u>17,473,428</u>	 <u>21,939,500</u>
NET ASSETS		
Unrestricted	616,587,934	531,181,870
Temporarily restricted	<u>7,582,000</u>	<u>7,848,500</u>
 TOTAL NET ASSETS	 <u>624,169,934</u>	 <u>539,030,370</u>
	<u>\$ 641,643,362</u>	<u>\$ 560,969,870</u>

See accompanying notes.

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
COMBINED STATEMENTS OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016 WITH COMPARATIVE
TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015**

	2016			2015
	Unrestricted	Temporarily Restricted	Total	
Changes in net assets:				
Revenues and Other Support				
Contributions	\$ 160,534,856	\$ 253,512	\$ 160,788,368	\$ 131,104,649
Interest and dividend income	9,076,329	-	9,076,329	8,123,923
Net realized and unrealized gain (loss) on investments	26,912,611	-	26,912,611	(14,573,004)
Administrative fee revenue	256,313	-	256,313	247,370
Rental income	219,176	-	219,176	226,544
Change in value of split interest agreements	-	310,145	310,145	(376,767)
Net assets released from restrictions	<u>830,157</u>	<u>(830,157)</u>	<u>-</u>	<u>-</u>
Total Revenues and Other Support	<u>197,829,442</u>	<u>(266,500)</u>	<u>197,562,942</u>	<u>124,752,715</u>
Expenses				
Grants	103,624,642	-	103,624,642	109,949,082
Program	4,681,259	-	4,681,259	6,068,694
Development	1,341,064	-	1,341,064	1,707,880
General and administrative	<u>2,776,413</u>	<u>-</u>	<u>2,776,413</u>	<u>2,382,187</u>
Total Expenses	<u>112,423,378</u>	<u>-</u>	<u>112,423,378</u>	<u>120,107,843</u>
Change in Net Assets	85,406,064	(266,500)	85,139,564	4,644,872
Net Assets, Beginning of Year	<u>531,181,870</u>	<u>7,848,500</u>	<u>539,030,370</u>	<u>534,385,498</u>
Net Assets, End of Year	<u>\$ 616,587,934</u>	<u>\$ 7,582,000</u>	<u>\$ 624,169,934</u>	<u>\$ 539,030,370</u>

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	\$ 85,139,564	\$ 4,644,872
Adjustments to reconcile net change in net assets to net cash provided by operating activities:		
Contributions of marketable investments	(5,936,227)	(12,572,744)
Contributions of limited marketable investments	(2,305,698)	(11,007,572)
Contributions of real estate for resale	-	(135,000)
Contributions of notes receivable	-	(119,931)
Forgiveness of note receivable	-	500,000
Note payable assumed with contribution	-	2,000,000
Net realized and unrealized (gain) loss on investments	(26,912,611)	14,573,004
Depreciation of property and equipment	112,566	105,528
Change in operating assets and liabilities:		
Contributions and other receivables, net	(223,584)	6,358,678
Interest receivable	(1,905)	16,607
Split interest agreements	414,000	(1,131,000)
Deposits and other assets	192,964	(473,422)
Accounts payable and other liabilities	(13,124)	164,369
Grants payable	(545,460)	1,230,636
Funds held for others	<u>(2,648,114)</u>	<u>(1,001,909)</u>
Net cash provided by operating activities	<u>47,272,371</u>	<u>3,152,116</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable investments	(160,291,992)	(166,219,587)
Proceeds from sale of marketable investments	137,875,499	146,245,235
Purchase of limited marketable investments	(411,087)	(140,422)
Liquidating distributions from limited marketable investments	6,422,485	5,190,488
Collections on notes receivable	111,077	186,788
Issuance of notes receivable	-	(100,000)
Sale of real estate held for resale	-	96,752
Proceeds from life insurance policy	2,000,822	-
Purchase of property and equipment	(37,679)	(84,445)
Payments on note payable	<u>(2,000,000)</u>	<u>-</u>
Net cash used by investing activities	<u>(16,330,875)</u>	<u>(14,825,191)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,941,496	(11,673,075)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>77,360,255</u>	<u>89,033,330</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 108,301,751</u>	<u>\$ 77,360,255</u>

See accompanying notes.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE A ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Greater Houston Community Foundation, a nonprofit Texas corporation (the Foundation), was organized in 1971 to administer and distribute property for charitable purposes, principally within the metropolitan area of Houston, Texas. The broad objectives of the Foundation include growing the amount and impact of charitable giving in the Houston area by serving individual, family and corporate donors in a flexible and tax-efficient way. The Foundation strives to connect donors to the causes they care about most and to the needs of the community.

Basis of Presentation - The combined financial statements include the accounts of the Greater Houston Community Foundation and its nonprofit supporting organizations. Supporting organizations are Texas nonprofit corporations or trusts that are affiliated with the Foundation by their purposes and operations and are deemed to be publicly supported charities rather than private foundations. All significant inter-entity activity and balances have been eliminated.

Management's Estimates - Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles in the United States (GAAP). These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents - Cash and cash equivalents generally consist of demand deposits and money market mutual funds invested in short-term, highly liquid time deposits having maturities in 90 days or less. All credit card and debit card transactions that process in fewer than seven days are classified as cash and cash equivalents.

Concentrations of Credit Risk - Financial instruments which subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents, contributions receivables, and notes receivable. The Foundation places its cash and cash equivalents with high credit quality financial institutions and brokerage firms. Deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk.

The collectability of the contributions and notes receivables is reviewed annually and an allowance for doubtful accounts is established as needed based upon factors surrounding the credit risk of specific donors, historical trends and other information. Management has determined that there is no need for an allowance for impairment as of December 31, 2016 or 2015.

Investment Risk - The Foundation's investments subject the Foundation to various levels of risk associated with economic, operating, and political events beyond management's control. Consequently, management's judgment as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on the Foundation's investments. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is possible that changes in risks in the near term could materially impact the amounts reflected herein.

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE A ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Marketable Investments - The Foundation's investments are made in accordance with the investment policy and objectives adopted by the Foundation's Governing Board. These guidelines provide for investments in equity securities, fixed income, multi strategy funds, real assets, and other securities. Marketable investments are recorded at fair value. 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.

Limited Marketable Investments - The Foundation receives contributions and assignments of interests in limited partnerships, limited liability companies, and stock in closely held corporations. These investments are recorded at appraised value at the date of contribution. Management annually evaluates these investments for impairment and reduces the carrying value when it believes there has been a permanent decline. Income from these investments is recorded using the cost method whereby non-liquidating distributions of cash or additional ownership units received are reflected as interest and dividend income in the statements of activities.

Other Investments - Other investments are held by donor advised funds and include mineral interests, cash surrender value of life insurance policies and real estate held for resale. Mineral interests and real estate held for resale are recorded at appraised value at the date of contribution and are evaluated annually for impairment. Cash surrender value of life insurance policies are carried at fair value.

Property and Equipment - Property and equipment are stated at cost or estimated fair market value at the date of donation. Additions are capitalized and depreciated using the straight-line method over the following estimated useful lives of the assets as follows:

Building and improvements	40 years
Furniture and equipment	3 – 7 years

Maintenance and repairs are expensed as incurred. When property and equipment is retired or otherwise disposed of, the cost thereof and the applicable accumulated depreciation is removed from the respective accounts and the resulting gain or loss is reflected in earnings.

The Foundation was gifted two buildings valued at approximately \$705,000 to be gifted to other 501(c)(3) organizations at the discretion of the Governing Board of the Foundation. The Foundation determined the best use of the properties is to retain them and receive rental income. Related depreciation expense is included as a program expense. Accumulated depreciation amounts to \$88,125 and \$70,500 at December 31, 2016 and 2015, respectively.

Funds Held for Others - Funds held for others consist of the liability for pledges receivable and monies held in funds established by various not-for-profit organizations which have named themselves or their affiliates as the beneficiary of the fund and money received from court directed judgments administered by the Foundation. Also included are investment funds managed by the Foundation without variance power.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE A ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classifications - The Foundation classifies funds established by donors as unrestricted net assets by virtue of the variance power granted the Governing Board with certain limited exceptions.

Temporarily Restricted Support - Grants, contributions of cash and other assets and the related earnings are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions with donor-imposed restrictions that are met in the current period are recorded as unrestricted contributions.

Net Assets Released From Restrictions - Simultaneous increases and decreases in net asset classes are made when the Foundation fulfills the purposes for which net assets were restricted. Certain donor imposed restrictions expire with the passage of time.

Revenue Recognition - The Foundation recognizes revenue from contributions as funds are collected or pledges are made. Administrative fee revenue includes asset based fee revenue and service fee revenue and is recognized when earned. Certain contributions are received as a result of the donors' estate planning and may not occur predictably, which may cause significant fluctuations from year to year.

In-Kind Contributions - Contributions of non-cash assets are recorded at their fair values in the period received. Contributions of services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

In addition, volunteers assist management in budget analysis, insurance evaluation, and other administrative activities. The values of these donated services are not recognized in the accompanying combined financial statements as the nature of the services received do not meet the guidelines for recognition established by GAAP.

Change in Value of Split Interest Agreements - The change in value of split interest agreements is reported as temporarily restricted support on the statement of activities and includes amortization of the discount of the contributions receivable from charitable trusts, changes in the discount of the related annuities payable and changes in the present value of the underlying assets of contributions receivable from charitable trusts. (See Note G)

Grants - Grant expenses are recognized in the period in which all due diligence has been completed, and they are approved by the Foundation's Governing Board. Grants payable in more than one year are discounted, if significant, to their present value at the time the grant is awarded.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE A ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Taxes - The Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). However, the Foundation is subject to taxes on unrelated business income. The Foundation had no significant unrelated business income in 2016 and 2015.

The Foundation believes that all significant tax positions utilized by the Foundation will more likely than not be sustained upon examination. As of December 31, 2016, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the years 2013 through 2015 with limited exceptions. Tax penalties and interest, if any, would be accrued as incurred and would be classified as general and administrative expense in the statements of activities.

Subsequent Events - The Foundation has evaluated subsequent events through April 13, 2017, the date the financial statements were available to be issued. No subsequent events occurred which require adjustment or additional disclosure to the financial statements at December 31, 2016.

NOTE B INVESTMENT RETURN

Investment return is summarized as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 9,076,329	\$ 8,123,923
Investment management fees	(953,024)	(829,943)
Net realized and unrealized gain (loss) on marketable securities	22,920,635	(14,854,284)
Net realized and unrealized gain on limited marketable investments and other investments	<u>3,991,976</u>	<u>281,280</u>
	<u>\$ 35,035,916</u>	<u>\$ (7,279,024)</u>

NOTE C FAIR VALUE MEASUREMENTS

GAAP requires the Foundation to disclose the fair value of all financial instruments for which it is practicable to estimate fair value, including those which are not reported at fair value in the combined statements of financial position. At December 31, 2016 and 2015, the fair values of all financial instruments, excluding limited marketable securities, were substantially equal to the carrying values.

Following is additional information regarding the nature of the financial instruments and the techniques used to estimate the fair values. There have been no changes in the techniques used during 2016 and 2015.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE C FAIR VALUE MEASUREMENTS (CONTINUED)

The carrying value of certain financial assets and liabilities such as cash, interest receivable, accounts payable, notes payable, and funds held for others is a reasonable estimate of fair value due to the short term nature of these instruments.

Equity and fixed income securities - The fair value is determined by the investment custodians based on recent sales in the open market of same or similar investments.

Equity and fixed income securities also include long-short funds invested in equity and fixed income securities to generate optimal risk-adjusted returns. These funds can be redeemed at various intervals ranging from daily to semi-annually and have redemption notice requirements up to 90 days depending on the manager. The fair value of long-short funds is determined by the managers of the various investment vehicles using fair values of underlying assets, estimates of future earnings and other factors.

Multi strategy funds - Multi strategy funds include funds that offer one core strategy across different hedge fund vehicles with allocations that range from long-short equity, long-short credit, global macro, fixed income arbitrage, managed futures, and event driven credit, among others. These funds can be liquidated at various intervals ranging from monthly to non-redeemable during the predetermined lifespan of the fund with 15-90 day redemption notice periods for redeemable funds depending on the manager. The fair value of long-short funds is determined by the managers of the various investment vehicles using fair values of underlying assets, estimates of future earnings and other factors.

Real assets - Real assets include actively managed mutual fund portfolios that invest in a broad array of commodity futures, commodity-related equities, bonds, and currencies. Sectors may include energy, industrial and precious metals, livestock and agriculture. The fair value of real assets is based on the quoted prices of the mutual funds.

Split interest agreements - The fair value of split interest agreements is estimated by management of the Foundation based on actuarial assumptions and discount rates applied to projected future cash flows. (See Note G).

Other investments - This classification includes life insurance policies whose fair value is the cash surrender value as determined by the insurance company. Also included are mineral interests which are evaluated annually for impairment based upon management's estimate of discounted anticipated future cash flows. In addition, real estate held for resale is evaluated annually for impairment based on values assessed by taxing authorities and comparable sales data.

Limited marketable investments - Limited marketable investments are measured on a non-recurring basis at appraised value upon initial acquisition and subsequently adjusted for liquidating distributions and for impairment as determined by the Foundation's management. These determinations are based on information provided by the entity relating to income/losses and total assets in conjunction with projected distributions to be made to the Foundation.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE C FAIR VALUE MEASUREMENTS (CONTINUED)

Contributions receivable and grants payable - Contributions receivable and grants payable are discounted to present value at the time of initial recording and amortized to income and expense over the term of the instrument resulting in a carrying value that is a reasonable estimate of fair value using Level 3 inputs (See below).

Notes receivable - The notes receivable bear a market rate of interest upon inception. Currently, the carrying value is a reasonable estimate of fair value using Level 3 inputs as the change in fair value between years is deemed to be insignificant.

Financial Instruments Recorded at Fair Value

For financial instruments recorded at fair value, GAAP provides a framework for measuring fair value using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments and the lowest priority to unobservable inputs. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The financial instrument's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

These inputs are summarized in the three broad levels listed below:

Level 1 – Unadjusted quoted prices for identical financial instruments in active markets that the Foundation has the ability to access.

Level 2 – Other significant observable inputs (including quoted prices in active or inactive markets for similar financial instruments), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial instruments.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the financial instruments. The fair value of Level 3 financial instruments are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The estimated fair value amounts of financial instruments have been determined by the Foundation using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Foundation could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE C FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables summarize financial assets measured/recorded at fair value as of December 31, 2016 and 2015. The Foundation has no financial liabilities recorded at fair value.

	2016			
	Level 1	Level 2	Level 3	Total
Measured on a recurring basis:				
Equity securities:				
Domestic Equity	\$ 137,633,748	\$ 49,085,712	\$ -	\$ 186,719,460
Global Equity	42,167,204	-	187,335	42,354,539
Foreign Equity	46,379,188	-	-	46,379,188
Long-short equities	2,028,738	19,908,683	-	21,937,421
Fixed income securities:				
Government bonds	28,411,869	-	-	28,411,869
Corporate bonds	49,116,283	-	-	49,116,283
Asset backed	32,330,154	-	-	32,330,154
Long-short fixed income	865,425	34,380,649	-	35,246,074
Multi strategy funds	1,307,569	30,123,750	929,312	32,360,631
Real assets	11,326,926	-	-	11,326,926
Split interest agreements	-	-	7,372,000	7,372,000
Other investments	-	151,600	5,000	156,600
Measured on a nonrecurring basis:				
Limited marketable investments	-	-	32,730,971	32,730,971
	<u>\$ 351,567,104</u>	<u>\$ 133,650,394</u>	<u>\$ 41,224,618</u>	<u>\$ 526,442,116</u>
	2015			
	Level 1	Level 2	Level 3	Total
Measured on a recurring basis:				
Equity securities:				
Domestic Equity	\$ 112,285,714	\$ 44,826,354	\$ -	\$ 157,112,068
Global Equity	39,123,507	-	280,550	39,404,057
Foreign Equity	39,953,028	-	-	39,953,028
Long-short equities	1,596,796	24,207,268	-	25,804,064
Fixed income securities:				
Government bonds	23,069,325	-	-	23,069,325
Corporate bonds	37,182,384	-	-	37,182,384
Asset backed	17,724,809	-	-	17,724,809
Long-short fixed income	1,497,614	52,439,282	-	53,936,896
Multi strategy funds	982,221	28,841,221	1,230,594	31,054,036
Real assets	8,927,897	-	-	8,927,897
Split interest agreements	-	-	7,786,000	7,786,000
Other investments	-	545,700	17,000	562,700
Measured on a nonrecurring basis:				
Limited marketable investments	-	-	34,039,417	34,039,417
	<u>\$ 282,343,295</u>	<u>\$ 150,859,825</u>	<u>\$ 43,353,561</u>	<u>\$ 476,556,681</u>

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE C FAIR VALUE MEASUREMENTS (CONTINUED)

The Foundation manages its investments by the nature of the underlying securities regardless of the ownership vehicle. Fixed income and equity securities in the preceding tables include individually owned securities as well as comingled funds, mutual funds and limited partnerships investing in the specified type of fixed income or equity security.

The table below sets forth a summary of changes in the fair value of the Foundation's level 3 assets:

	Global Equity	Multi Strategy Funds	Split Interest Agreements	Limited Marketable Investments	Other Investments	Total
Balance, December 31, 2014	\$ 457,025	\$ 1,175,481	\$ 6,655,000	\$ 27,847,383	\$ 40,000	\$ 36,174,889
Contributions	-	-	1,836,000	11,007,572	-	12,843,572
Total gains or losses included in change in net assets	(176,475)	(200,845)	(376,767)	234,528	(23,000)	(542,559)
Purchases, issues, sales and settlements:						
Purchases	-	583,822	-	140,422	-	724,244
Sales	-	(327,864)	(328,233)	(5,190,488)	-	(5,846,585)
Balance, December 31, 2015	280,550	1,230,594	7,786,000	34,039,417	17,000	43,353,561
Contributions	-	-	-	2,305,698	-	2,305,698
Total gains or losses included in change in net assets	(93,080)	215,240	310,145	2,397,254	(12,000)	2,817,559
Purchases, issues, sales and settlements:						
Purchases	-	2,117,473	-	411,087	-	2,528,560
Sales	(135)	(2,633,995)	(724,145)	(6,422,485)	-	(9,780,760)
Balance, December 31, 2016	<u>\$ 187,335</u>	<u>\$ 929,312</u>	<u>\$ 7,372,000</u>	<u>\$ 32,730,971</u>	<u>\$ 5,000</u>	<u>\$ 41,224,618</u>

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE D CONTRIBUTIONS AND OTHER RECEIVABLES, NET

Contributions receivable in more than one year are discounted, if significant, to their present value at the time the pledge is received using rates representing the risk free rate of return as of the date of the gift. Receivables may consist of pledges and billings to clients for service fees and out of pocket expenses. Contributions and other receivables at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Receivable in one year or less	\$ 115,721	\$ 102,137
Receivable in more than one year	<u>300,000</u>	<u>90,000</u>
Total net contributions and other receivables	<u>\$ 415,721</u>	<u>\$ 192,137</u>

NOTE E PROPERTY AND EQUIPMENT

Cost of property and equipment by major asset category and accumulated depreciation are as follows at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 528,910	\$ 528,910
Building and improvements	2,411,003	2,411,003
Furniture and equipment	<u>603,003</u>	<u>565,324</u>
	3,542,916	3,505,237
Less accumulated depreciation	<u>(1,538,618)</u>	<u>(1,426,052)</u>
	<u>\$ 2,004,298</u>	<u>\$ 2,079,185</u>

Land, building and improvements with a cost of \$2,171,968 and accumulated depreciation of \$967,614 at December 31, 2016 are included in the assets of a support organization, the purpose of which is to provide operating facilities for another nonprofit organization.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE F NOTES RECEIVABLE

The Foundation holds notes receivable for the benefit of certain donor advised funds at December 31 as follows:

	2016	2015
Promissory note from a Limited Partnership accruing interest at 4.30% annually; interest due annually beginning December 29, 2015; principal due at maturity in December 2034; unsecured.	\$ 2,500,000	\$ 2,500,000
Promissory note from a church accruing interest at 3% annually; \$27,699 in principal and interest due quarterly beginning March 1, 2014; maturing October 2028; secured by real estate.	1,113,096	1,189,071
Promissory notes accruing interest at 10% annually; principal and interest due monthly beginning August 2015; maturing at various dates between April 2016 and September 2022; secured by real estate.	71,778	106,880
Promissory note from a non-profit organization accruing interest at 2.5% annually; interest due annually beginning July 1, 2016; principal due at maturity in July 2018; unsecured.	100,000	100,000
Four promissory notes from a limited partnership; accruing interest at 12% annually; principal and accrued interest to be paid out of proceeds from property liquidations of the limited partnership.	10,900	10,900
	\$ 3,795,774	\$ 3,906,851

NOTE G SPLIT INTEREST AGREEMENTS

The Foundation has beneficial interests in irrevocable charitable remainder trusts (CRT) in which the Foundation is not the trustee. Under the terms of the trust agreements, the donors have established and funded trusts which specify that distributions be made to a designated beneficiary or beneficiaries over the trust terms. Upon termination of the trusts, the Foundation receives the assets remaining in the trust.

The Foundation is also the beneficiary of charitable lead trusts (CLT) in which the Foundation is not the trustee. Under the terms of the trust agreements, the Foundation is to receive a fixed payment annually over the specified term in the trust agreements. Upon the expiration of the trust agreements, the remaining trust assets are distributed to others.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE G SPLIT INTEREST AGREEMENTS (CONTINUED)

When the Foundation has irrevocable rights to a CRT or CLT and does not hold the assets, the Foundation's interest in the trust assets and specified future distributions is recorded as a beneficial interest in split interest agreements. Assets are initially recorded as contributions at the present value of the projected future cash flows using actuarial assumptions and discount rates based on market conditions in effect when the trusts were established and based on terms established in the trust agreements. As of December 31, 2016 and 2015, discount rates ranged from 2.55% to 6.00%.

The change in value during the year is recorded as a change in value of split interest agreements. At December 31, 2016, beneficial interest in CRTs and CLTs totaled \$4,882,000 and \$2,490,000, respectively. At December 31, 2015, beneficial interest in CRTs and CLTs totaled \$5,102,000 and \$2,684,000, respectively.

During 2015, two contributions of interests in charitable trusts were received in the amount of \$1,836,000. No contributions of interest in charitable trusts were received in 2016.

NOTE H GRANTS PAYABLE

Grants payable at December 31, 2016 and 2015 are payable in the following periods:

	<u>2016</u>	<u>2015</u>
Payable in one year	\$ 1,770,396	\$ 1,544,856
Payable in two years	1,135,500	1,121,000
Payable in three years	417,400	973,000
Payable in four years	115,400	322,400
Payable in five years	22,500	22,900
Payable in more than five years	<u>30,000</u>	<u>52,500</u>
	<u>1,720,800</u>	<u>2,491,800</u>
Total grants payable	<u>\$ 3,491,196</u>	<u>\$ 4,036,656</u>

Discounts on long-term grants payable were deemed insignificant at December 31, 2016 and 2015.

NOTE I NOTE PAYABLE

On December 30, 2015, three donor advised funds held at the Foundation received from an estate, along with contributions of cash and marketable securities, a promissory note totaling \$2,000,000 payable to the trustee of the estate. The outstanding principal balance was repaid in January 2016 out of the assets of the associated donor advised funds.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE J TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are time restricted and consist of the following at December 31, 2016 and 2015:

	2016	2015
Contributions receivable	\$ 210,000	\$ 62,500
Split interest agreements (expiring 2018 - 2035)	7,372,000	7,786,000
Temporarily restricted net assets	\$ 7,582,000	\$ 7,848,500

NOTE K COMMITMENTS AND CONTINGENCIES

The Foundation leases office space under a multi-year lease agreement through December 31, 2018. Rent expense was \$284,815 and \$278,923 for the years ended December 31, 2016 and 2015, respectively.

A supporting organization entered into a multi-year office lease commencing December 2014 through January 2020, with one five-year renewal option.

Future minimum lease payments, including those of the supporting organization, consist of the following at December 31, 2016:

2017		\$ 288,198
2018		294,990
2019		112,135
2020		7,955
		\$ 703,278

NOTE L RETIREMENT PLAN

Effective January 1, 2007, the Foundation established a 401(k) plan for all eligible employees. The plan is a defined contribution plan and the investments are selected by the participants. The Foundation matches 100% of an eligible member's pre-tax contribution up to 6% of allowable compensation. Employer and employee contributions vest immediately.

For the years ended December 31, 2016 and 2015, the Foundation's contributions to the plan were \$152,347 and \$133,773, respectively.

NOTE M SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES

	2016	2015
Net realized and unrealized gain (loss) on marketable securities related to funds held for others	\$ 740,627	\$ (355,099)

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE N ENDOWMENT

Net Asset Classifications - GAAP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). GAAP also requires disclosures about an organization's endowed funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Texas adopted UPMIFA effective September 1, 2007. The Governing Board, on the advice of legal counsel, has classified as endowments those funds with spending policies stipulated in the fund agreements.

The Foundation is governed subject to the Certificate of Formation and Bylaws of the Greater Houston Community Foundation. The Bylaws of the Foundation include a variance power provision which gives the Governing Board the authority to modify any restriction or condition placed on gifts, if in its sole judgment the Governing Board determines that the restriction becomes, in effect, incapable of fulfillment or is inconsistent with the charitable needs of the community. Further, under the governing documents of the Foundation, the Governing Board has the authority to distribute as much of the corpus of any gift, devise, bequest, or fund as the Governing Board in its sole discretion shall determine. As a result, all contributions not reported as temporarily time restricted are reported as unrestricted net assets for financial statement purposes, including those classified as endowments.

Endowment Investment and Spending Policies - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowments while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds for grant making and administration. The current spending policy is to distribute an amount up to 4% of the twelve quarter average fund balance. Accordingly, over the long term, the Foundation expects current spending policy to allow its endowment assets to grow at a rate exceeding inflation at an average rate of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE N ENDOWMENT (CONTINUED)

The composition of and changes in endowment net assets as of December 31, 2016 and 2015 are as follows:

	Unrestricted	Temporarily Restricted	Total
Endowment net assets, December 31, 2014	\$ 13,370,282	\$ 545,000	\$ 13,915,282
Contributions	406,090	-	406,090
Investment return:			
Investment income, net of fees	98,302	-	98,302
Net realized and unrealized loss	(271,503)	-	(271,503)
Change in value of split interest agreements	-	21,000	21,000
Total revenue	232,889	21,000	253,889
Grants	(315,462)	-	(315,462)
Administration and other expenses	(93,559)	-	(93,559)
Transfer to non-endowed fund	(142,130)	-	(142,130)
Total disbursements	(551,151)	-	(551,151)
Endowment net assets, December 31, 2015	13,052,020	566,000	13,618,020
Contributions	244,543	-	244,543
Investment return:			
Investment income, net of fees	109,186	-	109,186
Net realized and unrealized gain	739,946	-	739,946
Change in value of split interest agreements	-	68,000	68,000
Total revenue	1,093,675	68,000	1,161,675
Grants	(316,211)	-	(316,211)
Administration and other expenses	(88,325)	-	(88,325)
Transfer to non-endowed fund	(230,042)	-	(230,042)
Total disbursements	(634,578)	-	(634,578)
Endowment net assets, December 31, 2016	\$ 13,511,117	\$ 634,000	\$ 14,145,117

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
SUPPLEMENTAL SCHEDULE OF COMBINED STATEMENT OF ACTIVITIES
NET OF FUNDS HELD FOR OTHERS
YEAR ENDED DECEMBER 31, 2016**

	All Funds	Funds Held For Others	Net of Funds Held For Others
Revenues and Other Support			
Contributions	\$ 161,495,240	\$ 706,872	\$ 160,788,368
Interest and dividend income	9,263,716	187,387	9,076,329
Net realized and unrealized gain on investments	27,653,238	740,627	26,912,611
Administrative fee revenue	256,313	-	256,313
Rental income	219,176	-	219,176
Change in value of split interest agreements	310,145	-	310,145
Total Revenues and Other Support	<u>199,197,828</u>	<u>1,634,886</u>	<u>197,562,942</u>
Expenses			
Grants	107,084,552	3,459,910	103,624,642
Program	4,763,723	82,464	4,681,259
Development	1,341,064	-	1,341,064
General and administrative	2,776,413	-	2,776,413
Total Expenses	<u>115,965,752</u>	<u>3,542,374</u>	<u>112,423,378</u>
Change in Net Assets	83,232,076	(1,907,488)	85,139,564
Net Assets, Beginning of Year	<u>554,022,672</u>	<u>14,992,302</u>	<u>539,030,370</u>
Net Assets, End of Year	<u>\$ 637,254,748</u>	<u>\$ 13,084,814</u>	<u>\$ 624,169,934</u>

**GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
SUPPLEMENTAL SCHEDULE OF COMBINED STATEMENT OF ACTIVITIES
NET OF FUNDS HELD FOR OTHERS
YEAR ENDED DECEMBER 31, 2015**

	<u>All Funds</u>	<u>Funds Held For Others</u>	<u>Net of Funds Held For Others</u>
Revenues and Other Support			
Contributions	\$ 132,000,844	\$ 896,195	\$ 131,104,649
Interest and dividend income	8,302,358	178,435	8,123,923
Net realized and unrealized loss on investments	(14,928,103)	(355,099)	(14,573,004)
Administrative fee revenue	247,370	-	247,370
Rental income	226,544	-	226,544
Change in value of split interest agreements	<u>(376,767)</u>	<u>-</u>	<u>(376,767)</u>
Total Revenues and Other Support	<u>125,472,246</u>	<u>719,531</u>	<u>124,752,715</u>
Expenses			
Grants	111,935,368	1,986,286	109,949,082
Program	6,158,947	90,253	6,068,694
Development	1,707,880	-	1,707,880
General and administrative	<u>2,382,187</u>	<u>-</u>	<u>2,382,187</u>
Total Expenses	<u>122,184,382</u>	<u>2,076,539</u>	<u>120,107,843</u>
Change in Net Assets	3,287,864	(1,357,008)	4,644,872
Net Assets, Beginning of Year	<u>550,734,808</u>	<u>16,349,310</u>	<u>534,385,498</u>
Net Assets, End of Year	<u>\$ 554,022,672</u>	<u>\$ 14,992,302</u>	<u>\$ 539,030,370</u>