GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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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 statements of financial position as of December 31, 2018 and 2017 and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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, 2018 and 2017, and the changes in their nets assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

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Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental schedules 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 audits 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.

Harper & Pearson Company, P.C.

Houston, Texas
April 25, 2019

ASSETS	2018	2017
Cash and cash equivalents	$ 127,273,890	$ 166,022,956
Marketable investments	466,881,151	548,366,665
Contributions and other receivables, net	1,095,771	906,328
Interest receivable	154,530	205,140
Limited marketable investments	27,739,171	28,724,722
Notes receivable	2,698,848	2,797,217
Split interest agreements	6,044,000	7,263,000
Other investments	148,400	306,900
Property and equipment, net	1,941,757	1,893,965
Deposits and other assets	526,980	570,426
TOTAL ASSETS	$ 634,504,498	$ 757,057,319
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other liabilities	$ 1,362,597	$ 1,607,038
Grants payable	8,234,338	6,825,121
Annuity payable	1,549,000	1,549,000
Funds held for others	12,159,519	12,701,760
TOTAL LIABILITIES	23,305,454	22,682,919
NET ASSETS		
Net assets without donor restrictions	604,505,044	726,401,400
Net assets with donor restrictions	6,694,000	7,973,000
TOTAL NET ASSETS	611,199,044	734,374,400
	$ 634,504,498	$ 757,057,319

See accompanying notes.

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Changes in net assets:			
Revenues and Other Support			
Contributions	$ 121,224,777	$ (30,000)	$ 121,194,777
Investment returns, net	(22,188,901)	-	(22,188,901)
Administrative fee revenue	379,269	-	379,269
Rental income	207,133	-	207,133
Change in value of split interest agreements	(125,000)	(667,282)	(792,282)
Net assets released from donor restrictions	581,718	(581,718)	-
Total Revenues and Other Support	100,078,996	(1,279,000)	98,799,996
Expenses			
Grants	209,449,193	-	209,449,193
Program	7,275,576	-	7,275,576
Development	1,811,164	-	1,811,164
General and administrative	3,439,419	-	3,439,419
Total Expenses	221,975,352	-	221,975,352
Change in Net Assets	(121,896,356)	(1,279,000)	(123,175,356)
Net Assets, Beginning of Year	726,401,400	7,973,000	734,374,400
Net Assets, End of Year	$ 604,505,044	$ 6,694,000	$ 611,199,044

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Changes in net assets:			
Revenues and Other Support			
Contributions	$ 294,129,059	$ 521,000	$ 294,650,059
Investment returns, net	70,323,128	-	70,323,128
Administrative fee revenue	355,702	-	355,702
Rental income	199,023	-	199,023
Change in value of split interest agreements	(88,230)	421,910	333,680
Net assets released from donor restrictions	551,910	(551,910)	-
Total Revenues and Other Support	365,470,592	391,000	365,861,592
Expenses			
Grants	243,158,390	-	243,158,390
Program	6,524,008	-	6,524,008
Development	2,811,351	-	2,811,351
General and administrative	3,163,377	-	3,163,377
Total Expenses	255,657,126	-	255,657,126
Change in Net Assets	109,813,466	391,000	110,204,466
Net Assets, Beginning of Year	616,587,934	7,582,000	624,169,934
Net Assets, End of Year	$ 726,401,400	$ 7,973,000	$ 734,374,400

See accompanying notes.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program	Development	General and Administrative	Total
Grants	$ 209,449,193	$ -	$ -	$ 209,449,193
Salaries and benefits	3,270,434	647,179	2,445,158	6,362,771
Legal, accounting and professional services	1,632,884	-	278,436	1,911,320
Advertising and public relations	735,678	1,016,485	17,248	1,769,411
Office expenses	780,738	52,089	116,852	949,679
Computers and technology	265,371	50,583	163,010	478,964
Rent	140,620	17,679	273,048	431,347
Meetings and travel	152,511	8,906	62,461	223,878
Depreciation	96,036	12,324	80,571	188,931
Dues, licenses and continuing education	79,753	5,919	48,517	134,189
Other expenses	121,551	-	(45,882)	75,669
	$ 216,724,769	$ 1,811,164	$ 3,439,419	$ 221,975,352

See accompanying notes.

	Program	Development	General and Administrative	Total
Grants	$ 243,158,390	$ -	$ -	$ 243,158,390
Salaries and benefits	2,919,807	501,081	2,072,798	5,493,686
Legal, accounting and professional services	1,436,507	-	429,176	1,865,683
Advertising and public relations	102,695	2,109,864	7,059	2,219,618
Office expenses	1,362,992	99,258	112,957	1,575,207
Computers and technology	298,060	41,205	151,487	490,752
Rent	100,311	11,400	202,057	313,768
Meetings and travel	121,215	15,451	56,980	193,646
Depreciation	63,157	7,490	39,686	110,333
Dues, licenses and continuing education	79,288	25,602	53,904	158,794
Other expenses	39,976	-	37,273	77,249
	$ 249,682,398	$ 2,811,351	$ 3,163,377	$ 255,657,126

See accompanying notes.

	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	$ (123,175,356)	$ 110,204,466
Adjustments to reconcile net change in net assets to net cash (used) provided by operating activities:		
Contributions of marketable investments	(2,159,544)	(4,526,397)
Contributions of limited marketable investments	(1,179,332)	(100,000)
Contributions of real estate held for resale	-	(175,000)
Contributions of notes receivable	(182,847)	(476,031)
Grant awarded as an offset to a note receivable	-	1,062,515
Write-off of uncollectible note receivable	135,000	6,262
Net realized and unrealized loss (gain) on investments	35,141,816	(59,150,284)
Net realized gain on sale of building and improvements	(167,378)	-
Depreciation of property and equipment	188,931	110,333
Change in operating assets and liabilities:		
Contributions and other receivables, net	(189,443)	(490,607)
Interest receivable	50,610	(21,247)
Split interest agreements	1,219,000	109,000
Deposits and other assets	43,446	(78,527)
Accounts payable and other liabilities	(245,010)	709,620
Grants payable	1,409,217	3,333,925
Annuity payable	-	1,549,000
Funds held for others	259,537	(1,946,634)
Net cash (used) provided by operating activities	(88,851,353)	50,120,394
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable investments	(199,718,873)	(144,809,802)
Proceeds from sale of marketable investments	247,615,009	148,917,608
Proceeds from sale of building and improvements	838,566	-
Purchase of limited marketable investments	(196,603)	(262,955)
Proceeds from sale of limited marketable investments	796,066	1,007,038
Liquidating distributions from limited marketable investments	1,400,936	2,199,791
Collections on notes receivable	789,785	413,721
Issuance of notes receivable	(643,000)	-
Proceeds from sale of other investment	128,312	-
Proceeds from life insurance policy	-	135,410
Purchase of property and equipment	(907,911)	-
Net cash provided by investing activities	50,102,287	7,600,811
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(38,749,066)	57,721,205
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	166,022,956	108,301,751
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 127,273,890	$ 166,022,956

See accompanying notes.

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.

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 exceeded the amount of insurance provided on such deposits at December 31, 2018; 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 doubtful accounts as of December 31, 2018 or 2017.

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.

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

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.

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 securities, 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:

Buildings 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.

Grants Payable - Grants payable and related 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.

Annuity Payable - The annuity payable is part of a gift annuity agreement with certain donors whereby the Foundation agrees to pay an amount annually to the donors in consideration of a gift contribution. The difference between the gift and present value of the annuity payable is recognized as a contribution on the combined statements of activities. The Foundation has no potential liability for annual payments in excess of the fund's assets.

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

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.

Net Asset Classifications - The Foundation classifies funds established by donors as net assets without donor restrictions 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 support with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 contributions without donor restrictions.

Net Assets Released From Donor 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 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 H)

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 2018 and 2017.

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, 2018, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the years 2015 through 2017 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.

Functional Expenses - The financial statements report certain expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, rent and utilities which are allocated on a square footage basis, as well as salaries and benefits and related costs which are allocated on the basis of the number of direct program staff combined with estimates of time and effort for certain executive and support staff. Consulting fees, professional fees, and contract labor are generally incurred for specific functions.

Change in Accounting Principle - In August 2016, the FASB issued ASU No. 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)"*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes impacting the Foundation include: (a) the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) an analysis of expenses by function and nature in the new statement of functional expenses and summary of the allocation methods used to allocate costs, (c) the disclosure of quantitative and qualitative information regarding liquidity and availability of resources (See Note B), and (d) presenting investment return net of external and direct internal investment expenses on the statements of activities. This ASU became effective for the Foundation beginning January 1, 2018, and did not impact net assets or changes in net assets. The financial statements for 2017 have been revised to conform to the new presentation, which required reclassification of external investment expense of $1,141,461 from program expenses to investment returns, net (See Note C).

Recent Accounting Pronouncement - In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, "*Leases (Topic 842)"*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for the Foundation for the year beginning January 1, 2020. The Foundation is currently evaluating the effect the provisions of ASU 2016-02 will have on the combined financial statements.

Subsequent Events - The Foundation has evaluated subsequent events through April 25, 2019, 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, 2018.

NOTE B LIQUIDITY AND AVAILABILITY

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

The following table reflects the Foundation's financial assets as of December 31, 2018 and 2017, reduced by amounts unavailable for grants and other expenses within one year. Financial assets are considered unavailable when they are illiquid, unable to be converted to cash within one year, funds held for others, or net assets with donor restrictions.

Financial assets are as follows at December 31:

	2018	2017
Cash and cash equivalents	$ 127,273,890	$ 166,022,956
Marketable investments	466,881,151	548,366,665
Contributions and other receivables, net	1,095,771	906,328
Notes receivable	2,698,848	2,797,217
Limited marketable securities	27,739,171	28,724,722
Split interest agreements	6,044,000	7,263,000
Total financial assets	631,732,831	754,080,888
Less amounts not available to be used within one year:		
Net assets with donor restrictions	6,694,000	7,973,000
Funds held for others	12,159,519	12,701,760
Investments not convertible to cash within next 12 months	6,147,207	6,849,723
Contributions and other receivables collectible beyond one year	120,000	760,000
Notes receivable collectible beyond one year	2,696,302	2,690,362
Limited marketable investments	27,739,171	28,724,722
	55,556,199	59,699,567
Financial assets available to meet operating expenditures over the next twelve months	$ 576,176,632	$ 694,381,321

NOTE C INVESTMENT RETURNS, NET

Investment returns, net are comprised of the following for the years ended December 31:

	2018	2017
Interest and dividend income	$ 14,172,281	$ 12,314,305
Investment management fees	(1,219,366)	(1,141,461)
Net realized and unrealized (loss) gain on marketable securities	(35,114,523)	60,208,211
Net realized and unrealized loss on limited marketable investments and other investments	(27,293)	(1,057,927)
	$ (22,188,901)	$ 70,323,128

NOTE D FAIR VALUE MEASUREMENTS

Following is 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 2018 and 2017.

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 multi strategy 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 H).

NOTE D FAIR VALUE MEASUREMENTS (CONTINUED)

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 investee relating to income/losses and total assets in conjunction with projected distributions to be made to the Foundation.

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.

NOTE D FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables summarize financial assets measured/recorded at fair value as of December 31, 2018 and 2017.

	2018			
	Level 1	Level 2	Level 3	Total
Measured on a recurring basis:				
Equity securities:				
Domestic equity	$ 130,912,048	$ 56,185,753	$ -	$ 187,097,801
Global equity	4,055,406	-	34,324,818	38,380,224
Foreign equity	70,143,703	-	-	70,143,703
Long-short equities	2,011,914	13,844,109	-	15,856,023
Fixed income securities:				
Government bonds	26,712,074	-	-	26,712,074
Corporate bonds	54,631,133	-	-	54,631,133
Asset backed	33,194,315	-	-	33,194,315
Long-short fixed income	60,378	10,354,061	-	10,414,439
Global fixed income	6,347,156	-	-	6,347,156
Multi strategy funds	1,123,715	18,892,583	3,150,489	23,166,787
Real assets	937,496	-	-	937,496
Split interest agreements	-	-	6,044,000	6,044,000
Measured on a nonrecurring basis:				
Other investments	-	147,400	1,000	148,400
Limited marketable investments	-	-	27,739,171	27,739,171
	$ 330,129,338	$ 99,423,906	$ 71,259,478	$ 500,812,722

	2017			
	Level 1	Level 2	Level 3	Total
Measured on a recurring basis:				
Equity securities:				
Domestic equity	$ 167,347,292	$ 60,674,254	$ -	$ 228,021,546
Global equity	41,119,620	-	84,165	41,203,785
Foreign equity	53,824,266	-	-	53,824,266
Long-short equities	2,736,175	22,875,230	-	25,611,405
Fixed income securities:				
Government bonds	33,560,844	-	-	33,560,844
Corporate bonds	48,835,698	-	-	48,835,698
Asset backed	43,334,094	-	-	43,334,094
Long-short fixed income	260,131	29,276,210	-	29,536,341
Multi strategy funds	1,976,526	31,413,606	869,719	34,259,851
Real assets	10,178,835	-	-	10,178,835
Split interest agreements	-	-	7,263,000	7,263,000
Measured on a nonrecurring basis:				
Other investments	-	306,900	-	306,900
Limited marketable investments	-	-	28,724,722	28,724,722
	$ 403,173,481	$ 144,546,200	$ 36,941,606	$ 584,661,287

NOTE D 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	Other Investments	Limited Marketable Investments	Total
Balance, December 31, 2016	$ 187,335	$ 929,312	$ 7,372,000	$ 5,000	$ 32,730,971	$ 41,224,618
Contributions	-	-	-	-	100,000	100,000
Total gains or losses included in change in net assets	(103,170)	(58,589)	421,910	(5,000)	(1,162,375)	(907,224)
Purchases, issues, sales and settlements:						
Purchases	-	151,618	-	-	262,955	414,573
Sales	-	(152,622)	(530,910)	-	(3,206,829)	(3,890,361)
Balance, December 31, 2017	84,165	869,719	7,263,000	-	28,724,722	36,941,606
Contributions	-	-	-	-	1,179,332	1,179,332
Total gains or losses included in change in net assets	(2,562,347)	179,775	(667,282)	1,000	(164,484)	(3,213,338)
Purchases, issues, sales and settlements:						
Purchases	36,803,000	2,239,544	-	-	196,603	39,239,147
Sales	-	(138,549)	(551,718)	-	(2,197,002)	(2,887,269)
Balance, December 31, 2018	$ 34,324,818	$ 3,150,489	$ 6,044,000	$ 1,000	$ 27,739,171	$ 71,259,478

NOTE E INVESTMENT POOL ACTIVITY

The Foundation has several investment pools contributors may select to place their funds. The table below sets forth the summary of activity in these funds:

	Growth & Income	Growth	Income	Passive Growth	Passive Income	Money Market
Balance, December 31, 2016	$ 158,505,172	$ 32,672,037	$ 23,791,347	$ 76,798,708	$ 8,888,281	$ 56,602,220
Interest and dividend income	2,014,372	436,246	335,063	1,938,168	211,834	430,809
Net realized and unrealized gain on investments	17,285,797	5,307,248	1,896,531	12,459,502	471,864	47,628
Investment management fees	(227,752)	(58,853)	(34,568)	(46,438)	(4,907)	(1,456)
Contributions and withdrawals, net	(10,469,184)	(2,735,179)	1,198,963	7,992,447	513,594	57,923,122
Balance, December 31, 2017	167,108,405	35,621,499	27,187,336	99,142,387	10,080,666	115,002,323
Interest and dividend income	1,746,761	178,954	429,033	2,273,507	326,386	849,533
Net realized and unrealized gain on investments	(8,988,813)	(2,088,288)	(698,412)	(7,434,017)	(551,689)	(51,022)
Investment management fees	(307,289)	(77,298)	(56,839)	(88,023)	(11,398)	(149)
Contributions and withdrawals, net	(7,659,492)	(448,122)	6,704,354	5,095,256	3,388,530	(64,855,398)
Balance, December 31, 2018	$ 151,899,572	$ 33,186,745	$ 33,565,472	$ 98,989,110	$ 13,232,495	$ 50,945,287

NOTE F 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, 2018 and 2017 consist of the following:

	2018	2017
Receivable in one year or less	$ 975,771	$ 146,328
Receivable in more than one year	120,000	760,000
Total net contributions and other receivables	$ 1,095,771	$ 906,328

NOTE G NOTES RECEIVABLE

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

	2018	2017
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
Other notes receivable	198,848	297,217
	$ 2,698,848	$ 2,797,217

NOTE H SPLIT INTEREST AGREEMENTS

The Foundation has beneficial interests in irrevocable charitable remainder trusts (CRTs) 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 (CLTs) 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.

NOTE H SPLIT INTEREST AGREEMENTS (CONTINUED)

When the Foundation has irrevocable rights to CRTs or CLTs 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, 2018 and 2017, 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, 2018, beneficial interest in CRTs and CLTs totaled $4,007,000 and $2,037,000, respectively. At December 31, 2017, beneficial interest in CRTs and CLTs totaled $4,995,000 and $2,268,000, respectively.

No contributions of interest in charitable trusts were received in 2018 or 2017.

NOTE I PROPERTY AND EQUIPMENT, NET

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

	2018	2017
Land	$ 528,910	$ 528,910
Buildings and improvements	1,707,368	2,411,003
Furniture and equipment	1,101,838	603,003
	3,338,116	3,542,916
Less accumulated depreciation	(1,396,359)	(1,648,951)
	$ 1,941,757	$ 1,893,965

Land, buildings and improvements with a cost of $2,171,968 and accumulated depreciation of $1,021,649 at December 31, 2018 are included in the assets of a support organization, the purpose of which is to provide operating facilities for another nonprofit organization.

NOTE J GRANTS PAYABLE

Grants payable at December 31, 2018 and 2017 are payable in the following periods:

	2018	2017
Payable in one year	$ 5,058,354	$ 2,804,321
Payable in two years	1,810,484	1,860,400
Payable in three years	888,000	1,347,900
Payable in four years	394,000	595,000
Payable in five years	58,500	190,000
Payable in more than five years	25,000	27,500
	3,175,984	4,020,800
Total grants payable	$ 8,234,338	$ 6,825,121

Discounts on long-term grants payable were deemed insignificant at December 31, 2018 and 2017.

NOTE K NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are time restricted and consist of the following at December 31, 2018 and 2017:

	2018	2017
Contributions receivable	$ 650,000	$ 710,000
Split interest agreements (expiring 2021 - 2036)	6,044,000	7,263,000
Net assets with donor restrictions	$ 6,694,000	$ 7,973,000

NOTE L COMMITMENTS AND CONTINGENCIES

The Foundation relocated during 2018 and currently leases office space under a multi-year lease agreement through September 30, 2029. Rent expense was $401,445 and $292,487 for the years ended December 31, 2018 and 2017, 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 and the new office space, consist of the following at December 31, 2018:

2019	$ 195,645
2020	361,829
2021	363,106
2022	372,337
2023	381,569
Thereafter	2,335,569
	$ 4,010,055

NOTE M 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 participant's pre-tax contribution up to 6% of allowable compensation. Employer and employee contributions vest immediately.

For the years ended December 31, 2018 and 2017, the Foundation's contributions to the plan were $213,492 and $206,426, respectively.

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.

NOTE N ENDOWMENT (CONTINUED)

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 net assets with donor restrictions are reported as net assets without donor restrictions 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 previous 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.

NOTE N ENDOWMENT (CONTINUED)

The composition of and changes in endowment net assets as of December 31, 2018 and 2017 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2016	$ 13,511,117	$ 634,000	$ 14,145,117
Investment return:			
Investment income, net of fees	283,609	-	283,609
Net realized and unrealized gain	2,174,305	-	2,174,305
Change in value of split interest agreements	-	20,000	20,000
Total investment return	2,457,914	20,000	2,477,914
Grants	(319,490)	-	(319,490)
Administration and other expenses	(105,458)	-	(105,458)
Transfer to non-endowed fund	(339,789)	-	(339,789)
Total disbursements	(764,737)	-	(764,737)
Endowment net assets, December 31, 2017	15,204,294	654,000	15,858,294
Investment return:			
Investment income, net of fees	54,762	-	54,762
Net realized and unrealized loss	(910,504)	-	(910,504)
Change in value of split interest agreements	-	(73,000)	(73,000)
Total investment return	(855,742)	(73,000)	(928,742)
Grants	(525,740)	-	(525,740)
Administration and other expenses	(110,165)	-	(110,165)
Total disbursements	(635,905)	-	(635,905)
Endowment net assets, December 31, 2018	$ 13,712,647	$ 581,000	$ 14,293,647

NOTE O SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES

	2018	2017
Net realized and unrealized gain (loss) on marketable securities related to funds held for others	$ (801,778)	$ 1,563,579

GREATER HOUSTON COMMUNITY FOUNDATION AND AFFILIATES
SUPPLEMENTAL SCHEDULE OF COMBINED STATEMENT OF ACTIVITIES
NET OF FUNDS HELD FOR OTHERS
YEAR ENDED DECEMBER 31, 2018

	All Funds	Funds Held For Others	Net of Funds Held For Others
Revenues and Other Support			
Contributions	$ 121,664,232	$ 469,455	$ 121,194,777
Investment returns, net	(22,825,923)	(637,022)	(22,188,901)
Administrative fee revenue	379,269	-	379,269
Rental income	207,133	-	207,133
Change in value of split interest agreements	(792,282)	-	(792,282)
Total Revenues and Other Support	98,632,429	(167,567)	98,799,996
Expenses			
Grants	209,743,506	294,313	209,449,193
Program	7,355,937	80,361	7,275,576
Development	1,811,164	-	1,811,164
General and administrative	3,439,419	-	3,439,419
Total Expenses	222,350,026	374,674	221,975,352
Change in Net Assets	(123,717,597)	(542,241)	(123,175,356)
Net Assets, Beginning of Year	747,076,160	12,701,760	734,374,400
Net Assets, End of Year	$ 623,358,563	$ 12,159,519	$ 611,199,044

See independent auditor's report.

SUPPLEMENTAL SCHEDULE OF COMBINED STATEMENT OF ACTIVITIES
NET OF FUNDS HELD FOR OTHERS
YEAR ENDED DECEMBER 31, 2017

	All Funds	Funds Held For Others	Net of Funds Held For Others
Revenues and Other Support			
Contributions	$ 294,711,563	$ 61,504	$ 294,650,059
Investment returns, net	72,081,106	1,757,978	70,323,128
Administrative fee revenue	355,702	-	355,702
Rental income	199,023	-	199,023
Change in value of split interest agreements	333,680	-	333,680
Total Revenues and Other Support	367,681,074	1,819,482	365,861,592
Expenses			
Grants	245,287,799	2,129,409	243,158,390
Program	6,597,135	73,127	6,524,008
Development	2,811,351	-	2,811,351
General and administrative	3,163,377	-	3,163,377
Total Expenses	257,859,662	2,202,536	255,657,126
Change in Net Assets	109,821,412	(383,054)	110,204,466
Net Assets, Beginning of Year	637,254,748	13,084,814	624,169,934
Net Assets, End of Year	$ 747,076,160	$ 12,701,760	$ 734,374,400