Public Welfare Foundation, Inc.

Financial Statements
Years Ended September 30, 2018 and 2017

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Contents

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Independent Auditor's Report

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

We have audited the accompanying financial statements of **Public Welfare Foundation, Inc.** (the Foundation), which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Public Welfare Foundation, Inc.** as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

August 6, 2019

Financial Statements

Public Welfare Foundation, Inc.

Statements of Financial Position

September 30,		**2018**		2017
Assets				
Cash and cash equivalents	**$**	**1,557,187**	$	3,444,115
Due from stockbrokers for securities with settlements pending		**8,232,609**		10,584,500
Accrued interest and dividends receivable		**236,673**		12,174
Investments, at fair value:				
Short-term investments		**16,262,607**		6,263,213
Equity securities		**241,410,920**		289,458,370
Fixed income securities		**65,216,798**		68,100,753
Diversifying strategies		**56,615,817**		17,703,816
Other investments		**127,232,572**		107,922,029
Total investments		**506,738,714**		489,448,181
Prepaid expenses, taxes, and other assets		**394,586**		1,318,955
Property and equipment, net		**8,188,409**		8,525,550
Total assets	**$**	**525,348,178**	$	513,333,475
Liabilities and net assets				
Liabilities				
Accrued expenses, taxes, and other liabilities	**$**	**344,051**	$	301,255
Deferred federal excise tax liability		**420,347**		850,270
Grants payable		**1,372,000**		1,417,000
Bonds payable		**10,409,444**		10,378,512
Total liabilities		**12,545,842**		12,947,037
Commitments and contingencies				
Unrestricted net assets		**512,802,336**		500,386,438
Total liabilities and net assets	**$**	**525,348,178**	$	513,333,475

See accompanying notes to financial statements.

Public Welfare Foundation, Inc.

Statements of Activities

Years ended September 30,	**2018**	2017
Investment income and expense		
Interest and dividends	**$ 3,155,123**	$ 1,045,319
Other investment funds gain, net	**37,999,035**	16,342,495
Total net income	**41,154,158**	17,387,814
Realized gain on sale of equity and fixed income securities, diversifying strategies, and other investments, net	**10,927,655**	11,682,974
Unrealized (loss) gain on equity and fixed income securities, diversifying strategies, and other investments, net	**(12,674,353)**	22,816,249
Total net investment (loss) gain	**(1,746,698)**	34,499,223
Total investment income	**39,407,460**	51,887,037
Investment advisory, custodial fees and investment expenses	**(890,273)**	(849,191)
Net investment income and expense	**38,517,187**	51,037,846
Expenses		
Program expenses:		
Grants approved, net of return	**21,752,623**	21,066,091
Administrative expenses:		
Salaries and fringe benefits	**2,206,829**	2,130,820
Professional and consulting fees	**561,150**	916,595
Other administrative expenses	**1,640,447**	1,596,463
	26,161,049	25,709,969
Provision for federal excise and other taxes	**173,539**	616,852
Total expenses	**26,334,588**	26,326,821
Net operating income	**12,182,599**	24,711,025
Other income		
Class action settlements	**35,675**	20,402
Rental and other miscellaneous income	**197,624**	190,214
Total other income	**233,299**	210,616
Change in unrestricted net assets	**12,415,898**	24,921,641
Unrestricted net assets, beginning of year	**500,386,438**	475,464,797
Unrestricted net assets, end of year	**$ 512,802,336**	$ 500,386,438

See accompanying notes to financial statements.

Public Welfare Foundation, Inc.

Statements of Cash Flows

Years ended September 30,	**2018**	2017
Cash flows from operating activities		
Change in unrestricted net assets	**$ 12,415,898**	$ 24,921,641
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	**403,902**	391,513
Realized gain on sale of equity and fixed income securities, diversifying strategies, and other investments, net	**(10,927,655)**	(11,682,974)
Unrealized loss (gain) on equity and fixed income securities, diversifying strategies, and other investments, net	**12,674,353**	(22,816,249)
Other investment funds gain, net	**(37,999,035)**	(16,342,495)
(Increase) decrease in assets		
Due from stockbrokers for securities with settlements pending	**2,351,891**	(10,403,284)
Accrued interest and dividends receivable	**(224,499)**	(10,386)
Prepaid expenses, taxes, and other assets	**924,369**	(258,184)
Increase (decrease) in liabilities		
Accrued expenses, taxes, and other liabilities	**42,796**	28,279
Deferred federal excise tax asset/liability	**(429,923)**	455,893
Grants payable	**(45,000)**	(125,000)
Net cash used in operating activities	**(20,812,903)**	(35,841,246)
Cash flows from investing activities		
Acquisition of property and equipment	**(35,829)**	(30,498)
Proceeds from sale and distributions of investments	**276,567,202**	178,025,987
Purchases of investments	**(257,605,398)**	(144,568,656)
Net cash provided by investing activities	**18,925,975**	33,426,833
Net decrease in cash and cash equivalents	**(1,886,928)**	(2,414,413)
Cash and cash equivalents, beginning of year	**3,444,115**	5,858,528
Cash and cash equivalents, end of year	**$ 1,557,187**	$ 3,444,115

See accompanying notes to financial statements.

1. Organization

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

2. Summary of Significant Accounting Policies

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

Use of Estimates

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

Basis of Accounting

The financial statements of the Foundation are presented in conformity with U.S. GAAP and have been prepared using the accrual basis of accounting, which includes recognition of revenue as earned and expenses as incurred.

Cash and Cash Equivalents

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

Financial Instruments and Credit Risk

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

Amounts Due From/To Stockbrokers for Securities with Settlements Pending

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

Investments

Investments are comprised of short-term investments, equity and fixed income securities, diversifying strategies, as well as, other investments. Due to the inherent uncertainty of valuation, estimated values may differ significantly from values that would have been used had a ready market for investments existed, and the differences could be material.

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

Property and Equipment

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

Impairment of Long-Lived Assets

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

Deferred Federal Excise Tax

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

Grants Expense

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

Tax-Exempt Status

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

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation. These reclassifications have no effect on the previously reported change in net assets.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), which is the leasing standard for both lessees and lessors. Under this update, a lessee will recognize lease assets and liabilities on the statement of financial position for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. GAAP. The ASU will be effective for periods beginning after December 15, 2019. This guidance is effective for the Foundation's fiscal year 2021. Management is currently determining the impact that adopting of this guidance will have on the Foundation's financial statements.

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

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments (Topic 230),* which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are intended to reduce diversity in practice. This ASU contains additional guidance clarifying when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows (including when reasonable judgment is required to estimate and allocate cash flows) versus when an entity should classify the aggregate amount into one class of cash flows on the basis of predominance. The ASU is effective for the Foundation's fiscal years beginning after December 15, 2018, with early adoption permitted. Management is currently evaluating the impact of this ASU on their financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. The standard provides guidance to assist in the determination of whether a transaction is a contribution or an exchange transaction. If the transaction is deemed to be a contribution the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. The ASU will assist in the determination of the nature of the transaction which will then govern the revenue and expense recognition methodology and timing of the transaction. The ASU is effective for transactions in which the Foundation serves as the resource provider beginning on October 1, 2020. Management is currently evaluating the impact of this ASU on their financial statements.

3. Investments

Investments held consist of the following as of September 30:

	2018	2017
Short-term investments	**$ 16,262,607**	$ 6,263,213
Equity securities:		
Adage Capital Partners, LP	**50,994,495**	117,879,517
Ariel International Fund	**33,110,886**	25,000,000
Blakeney, LP	**1,134,063**	10,362,834
Commonfund Emerging Markets Quantitative Focus Fund	**25,320,779**	14,029,625
Commonfund Select Equity Fund, LLC	**21,987,602**	-
Commonfund Institutional Core Equity Fund, LLC	**-**	22,000,000
Commonfund International Focus Fund I, LLC	**-**	21,920,020
Commonfund SSgA Global Natural Resources Stock Index	**-**	24,490,032
Commonfund SSgA MSCI Australia Index Fund	**1,199,341**	-
Commonfund SSgA MSCI Canada Index Fund	**7,045,728**	6,973,911
Commonfund SSgA MSCI EAFE Index Non-Lending	**13,679,751**	-
Commonfund SSgA MSCI Japan Index Fund	**4,489,944**	7,060,760
Matarin Capital Management	**23,623,947**	20,000,000
SSgA S&P Global LargeMidCap Natural Resources Index Non-Lending	**1,680,000**	-
SSgA Tuckerman US REIT Index Non-Lending	**7,561,812**	-
T. Rowe Price European Equity Fund	**11,654,863**	19,741,671
Two Sigma U.S. All Cap Core Equity Fund, LP	**37,927,709**	-
	241,410,920	289,458,370
Fixed income securities:		
Brigade Leveraged Capital Structures Offshore	**-**	11,515,567
Caxton Global Investments	**-**	9,514,180
Garcia Hamilton & Associates	**29,346,230**	-
Hudson Bay International	**-**	2,010,125
Income Research & Management (IRM) Core Bond Fund	**35,870,568**	45,060,881
	65,216,798	68,100,753
Diversifying strategies:		
Alphadyne International Fund, Ltd.	**13,202,856**	-
Atlas Enhanced Fund, Ltd.	**15,498,283**	-
Goldman Sachs Event Driven PLC	**34,760**	34,808
Waterfront CP Offshore Fund Ltd.	**15,603,177**	5,191,440
Western Asset Macro Opportunities Direct Feeder Fund	**12,276,741**	12,477,568
	56,615,817	17,703,816

	2018	2017
Other investments:		
Brightwood Capital Offshore Feeder Fund IV, LP	**2,012,576**	-
Carmel Partners Investment Fund, LP	**-**	29,002
Carmel Partners Investment Fund II, LP	**1,281,741**	1,323,723
Carmel Partners Investment Fund III, LP	**2,911,365**	3,131,739
Cerberus Offshore Levered Loan Opportunities III, LP	**5,221,606**	3,237,735
Commonfund Capital International Partners IV, LP	**635,427**	791,681
Commonfund Capital International Partners VII, LP	**4,811,853**	4,652,885
Commonfund Capital Natural Resources IX, LP	**9,750,854**	8,235,551
Commonfund Capital Natural Resources X, LP	**6,011,800**	2,883,987
Commonfund Capital Private Equity V, LP	**536,113**	817,668
Commonfund Capital Private Equity VII, LP	**6,955,153**	7,673,317
Commonfund Capital Private Equity VIII, LP	**5,195,744**	4,488,312
Commonfund Capital Venture Partners IX, LP	**14,370,320**	13,382,422
Commonfund Capital Venture Partners X, LP	**7,296,839**	6,286,387
Commonfund Capital Venture Partners XI, LP	**4,415,462**	2,165,158
Commonfund Capital Venture Partners XII, LP	**329,918**	13,006
Commonfund Distressed Debt Partners II, LP	**402,388**	557,936
Commonfund Global Distressed Partners III, LP	**914,876**	1,176,955
Commonfund Global Distressed Investors IV, LP	**917,629**	1,072,121
Commonfund Strategic Solutions Core Real Estate, LP	**10,001,332**	9,261,055
Commonfund Strategic Solutions Real Estate Opportunities Fund 2011, LP	**5,888,005**	7,044,229
Commonfund Strategic Solutions Real Estate Opportunities Fund 2014, LP	**8,140,917**	8,856,660
Commonfund Capital Strategic Solutions Global Private Equity Fund, LP	**7,242,542**	5,422,638
Commonfund Capital Strategic Solutions Global Private Equity Fund II, LP	**2,451,893**	1,069,847
Harrison Street Core Property Fund	**10,191,536**	-
Liquid Realty Partners IV, LP	**47,432**	184,314
Liquid Realty Partners IV Tax Exempt AIV, LP	**293,014**	215,409
Merit Energy Partners C – II, LP	**827,408**	2,206,443
Merit Energy Partners D – II, LP	**715,865**	2,425,715
Merit Energy Partners F – II, LP	**1,031,461**	1,377,380
Merit Energy Canada, LP	**2,585,623**	2,590,425
Merit Energy Canada II, LP	**-**	15,404
TIFF Partners IV, LLC	**281,984**	359,689
TIFF Realty & Resources I, LLC	**411,630**	684,112
TIFF Partners V – US, LLC	**316,958**	435,508
TIFF Partners V – International, LLC	**101,614**	187,603
Tuckerbrook – Medley, LP	**551,302**	560,174
Tuckerbrook – Styx, LP	**8,998**	31,615
Tuckerbrook – Special Situations Fund, LP	**134,597**	134,598
Tuckerbrook SB Global Distressed Fund I, LP	**2,036,797**	2,939,626
	127,232,572	107,922,029
Total	**$ 506,738,714**	$ 489,448,181

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

2018	Cost	Net Appreciation	Fair Value
Short-term investments	$ 16,262,607	$ -	$ 16,262,607
Equity securities	219,231,396	22,179,524	241,410,920
Fixed income securities	64,710,805	505,993	65,216,798
Diversifying strategies	53,188,602	3,427,215	56,615,817
Other investments	123,076,269	4,156,303	127,232,572
Total	$ 476,469,679	$ 30,269,035	$ 506,738,714

2017	Cost	Net Appreciation	Fair Value
Short-term investments	$ 6,263,213	$ -	$ 6,263,213
Equity securities	259,152,792	30,305,578	289,458,370
Fixed income securities	63,843,821	4,256,932	68,100,753
Diversifying strategies	15,000,000	2,703,816	17,703,816
Other investments	102,674,869	5,247,160	107,922,029
Total	$ 446,934,695	$ 42,513,486	$ 489,448,181

The Foundation has commitments to make additional investments of $61,189,138 in other investments as of September 30, 2018. The Foundation cannot withdraw from the partnership investments prior to their termination, pursuant to the partnership agreements, and there are restrictions on the transferability of the Foundation's interest in these partnerships. Some partnerships have exit dates pursuant to the partnership agreement. Due to restrictions on transferability and timing of withdrawals from the limited partnerships and corporate interests, the amounts ultimately realized upon liquidation could differ from reported values that are based on current conditions.

4. Fair Value Measurements

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

Cash and short-term investments

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

Long-term investments

The fair values for marketable investments, which include equity and fixed income securities, which are traded on a national securities exchange are based on current quoted market prices. Investments in limited partnership and other investment funds that invest in marketable securities are valued based on market values of the underlying securities.

In the absence of an active market for such investments, the fair values of investments in limited partnerships and other investments that invest in nonmarketable securities, real estate, and oil and gas interests are based upon audited partnership financial statements, adjusted for cash flows and significant unrealized gains and losses for the years ended September 30, 2018 and 2017.

Grants payable

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

Bonds payable

The fair value of the bonds is estimated based on current rates offered on long-term United States Treasury Bills. The discount rate utilized was 3.01% (2.16% for 2017).

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

	2018		**2017**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets				
Cash and short-term investments	**$ 17,819,794**	**$ 18,056,467**	$ 9,707,328	$ 9,719,502
Long-term investments	**$ 490,476,107**	**$ 490,476,107**	$ 483,184,968	$ 483,184,968
Liabilities				
Grants payable	**$ 1,372,000**	**$ 1,372,000**	$ 1,417,000	$ 1,417,000
Bonds payable	**$ 10,800,000**	**$ 8,775,423**	$ 10,800,000	$ 9,299,456

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

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

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

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

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

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

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

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

The following table presents the Foundation's assets that are measured at fair value on a recurring basis as of September 30, 2018:

	Level 1	Level 2	Level 3	Investments Measured at NAV*	Totals
Short-term investments	$ 16,262,607	$ -	$ -	$ -	$ 16,262,607
Equity securities:					
Domestic equity	23,623,947	-	-	110,909,806	134,533,753
Real assets	-	-	-	9,241,812	9,241,812
International equity	33,110,886	-	-	64,524,469	97,635,355
Fixed income securities	29,346,230	-	-	35,870,568	65,216,798
Diversifying strategies	-	-	-	56,615,817	56,615,817
Other investments:					
Distressed debt	-	-	-	4,966,586	4,966,586
Natural resources	-	-	-	20,923,011	20,923,011
Private credit	-	-	-	7,234,182	7,234,182
Private equity, venture capital, other	-	-	-	54,941,820	54,941,820
Private real estate	-	-	-	39,166,973	39,166,973
Total	$ 102,343,670	$ -	$ -	$ 404,395,044	$ 506,738,714

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

The following table presents the Foundation's assets that are measured at fair value on a recurring basis as of September 30, 2017:

	Level 1	Level 2	Level 3	Investments Measured at NAV*	Totals
Short-term investments	$ 6,263,213	$ -	$ -	$ -	$ 6,263,213
Equity securities:					
Domestic equity	20,000,000	-	-	139,879,517	159,879,517
Real assets	-	-	-	24,490,032	24,490,032
International equity	25,000,000	-	-	80,088,821	105,088,821
Fixed income securities	-	-	-	68,100,753	68,100,753
Diversifying strategies	-	-	-	17,703,816	17,703,816
Other investments:					
Distressed debt	-	-	-	6,473,025	6,473,025
Natural resources	-	-	-	19,734,905	19,734,905
Private credit	-	-	-	3,237,735	3,237,735
Private equity, venture capital, other	-	-	-	47,746,120	47,746,120
Private real estate	-	-	-	30,730,244	30,730,244
Total	$ 51,263,213	$ -	$ -	$ 438,184,968	$ 489,448,181

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

5. Net Asset Value (NAV) Per Share

In accordance with ASU 2009-12, *Fair Value Measurements and Disclosures (Topic 820) – Investment in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent),* the Foundation expanded disclosures to include the category, fair value, redemption frequency, and redemption notice period for those assets whose fair value is estimated using the net asset value per share or its equivalent for which fair value is not readily determinable, as of September 30, 2018. For the Foundation, such assets include the limited partnership investments and non-partnership investments.

The following table sets forth a summary of the Foundation's investments with a reported NAV as of September 30, 2018:

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period (Days)
Equity securities				
Domestic equity (a)	**$ 110,909,806**	**$ -**	Quarterly	95
Real assets (b)	**9,241,812**	**-**	Monthly	5
International equity (c)	**64,524,469**	**-**	Monthly	5
Fixed income securities (d)	**35,870,568**	**-**	Monthly	5
Diversifying strategies (e)	**56,615,817**	**-**	Monthly	5
Other investments				
Distressed debt(f)	**4,966,586**	**5,151,442**	No immediate liquidity*	n/a
Natural resources (g)	**20,923,011**	**6,420,000**	No immediate liquidity*	n/a
Private credit (h)	**7,234,182**	**12,831,204**	No immediate liquidity*	n/a
Private equity (i)	**54,941,820**	**28,328,187**	No immediate liquidity*	n/a
Private real estate (j)	**39,166,973**	**8,458,305**	No immediate liquidity*	n/a
	$ 404,395,044	**$ 61,189,138**		

**Alternative investments listed above have varying withdrawal restrictions. The typical alternative investment fund cycle provides for an initial investment period of 1-5 years, a growth management phase of 2-7 years, and realization/distribution of investment returns over years 7-12.*

The following table sets forth a summary of the Foundation's investments with a reported NAV as of September 30, 2017:

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period (Days)
Equity securities				
Domestic equity (a)	$ 139,879,517	$ -	Quarterly	95
Real assets (b)	24,490,032	-	Monthly	5
International equity (c)	80,088,821	-	Monthly	5
Fixed income securities (d)	68,100,753	-	Monthly	5
Diversifying strategies (e)	17,703,816	-	Monthly	5
Other investments				
Distressed debt(f)	6,473,025	5,151,442	No immediate liquidity*	n/a
Natural resources (g)	19,734,905	10,300,000	No immediate liquidity*	n/a
Private credit (h)	3,237,735	6,929,395	No immediate liquidity*	n/a
Private equity (i)	47,746,120	34,531,685	No immediate liquidity*	n/a
Private real estate (j)	30,730,244	18,458,305	No immediate liquidity*	n/a
	$ 438,184,968	$ 75,370,827		

**Alternative investments listed above have varying withdrawal restrictions. The typical alternative investment fund cycle provides for an initial investment period of 1-5 years, a growth management phase of 2-7 years, and realization/distribution of investment returns over years 7-12.*

(a) The domestic equity program consists of multiple managers who primarily trade diversified stocks and securities of U.S. publicly traded equities with multiple market capitalizations. There are differing objectives for each manager: either to outperform the S&P 500 or the Russell 2000, depending on the manager's strategy.

(b) Real assets equity securities investments are made in a broad spectrum of commodity assets including energy, agricultural goods, metals and foreign currencies. This strategy seeks to outperform its benchmarks, the various MSCI World Resources Industry indices over the long term.

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

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

(e) Diversifying strategies, or the marketable alternatives equity securities program, uses a multi-manager approach, allocating assets to investment sub-advisors or third-party managers. Investments, both domestic and international, may include hedge funds and other investments with the flexibility to employ sophisticated investment strategies that aim to provide attractive risk-adjusted returns through lower correlation to traditional equity and fixed income investments.

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

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

(h) Fixed income other investments are investments in private credit that diversify the fixed income portfolio by taking advantage of the potential liquidity premium available in less liquid markets. The objective is to seek attractive risk-adjusted returns by generating current income from debt investments and realizing capital appreciation from equity-related investments, where present.

(i) Private equity, venture capital, other investments seek to invest primarily in direct or co-investment in operating companies, or in other limited partnerships formed for the purpose of making investments in emerging growth companies not normally accessible through traditional equity investing. This category also includes investments in secured debt assets through direct lending to middle-market companies. The investment objective is to obtain long-term growth of capital through domestic or global investment.

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

6. Property and Equipment

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

	2018	2017
Building and building improvements	$ 11,692,649	$ 11,692,649
Land and land improvements	1,690,863	1,690,863
Furniture, fixture and equipment	1,302,996	1,267,167
	14,686,508	14,650,679
Less: accumulated depreciation and amortization	(6,498,099)	(6,125,129)
Total	$ 8,188,409	$ 8,525,550

7. Federal Excise and Other Taxes

In accordance with applicable provisions of the Internal Revenue Code, (the Code), the Foundation is subject to federal excise tax imposed on private foundations at 2%, or 1% if certain conditions are met, and is subject to corporate income tax on its unrelated business income. The excise tax is imposed on net investment income, excluding unrealized gains, as defined under federal law.

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

	2018	2017
Current	$ 603,462	$ 160,959
Deferred	(429,923)	455,893
Total provision for federal excise and other tax expense	$ 173,539	$ 616,852

Current taxes for the years ended September 30, 2018 and 2017 were $603,462 and $160,959, respectively. The Foundation has recorded its tax liability utilizing a rate of 2% and 1% for the years ended September 30, 2018 and 2017, respectively. Current taxes are related primarily to federal excise tax and unrelated business income generated as a result of the Foundation's investment income in various states. No provisional estimates for income taxes on the state level have been made as the amounts were deemed to be immaterial in 2018 and 2017.

The Foundation recorded a deferred federal excise tax liability for the years ended September 30, 2018 and 2017, at a rate of 2% of net unrealized investment gains in the amount of $605,381 and $850,270, respectively. The Foundation recorded a deferred federal excise tax asset for the years ended September 30, 2018 and 2017, of $185,034 and $0, respectively, at a rate of 21% of the Net Operating Loss (NOL) carryforward. The Foundation had a net deferred federal excise tax liability for the years ended September 30, 2018 and 2017, of $420,347 and $850,270, respectively.

In addition, the code requires that certain minimum distributions be made. The Foundation has made the required minimum distributions as of September 30, 2018 and 2017. Under FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely than not that the position will be sustained. The Foundation believes that it has appropriate support for the excise and unrelated business income tax positions taken and, as such, does not have any uncertain tax positions that result in a material impact on the Foundation's financial position or statements of activities.

The Foundation is still open to examination by U.S. tax authorities from fiscal year 2015 forward. The Foundation is also open to examination by state tax authorities for various tax years. For the years ended September 30, 2018 and 2017, no interest or penalties were recorded in the statements of activities that related to amended tax returns.

8. Bonds Payable

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

Effective November 1, 2010, the Foundation entered into a new bond agreement with TD Bank who would be the new bond holder of the District of Columbia Revenue Series 2000 Revenue Bonds. Pursuant to the new loan agreement with TD Bank, the bond agreement will mature on November 1, 2025. As part of the agreement, the lender does not have the right to call the principal before the maturity date. However, on July 12, 2011, the Foundation directed the Trustee, on behalf of the District of Columbia, to optionally redeem $200,000 of the bonds, resulting in an outstanding obligation of $10,800,000 as of September 30, 2018 and 2017.

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

The interest rate as of September 30, 2018 and 2017, was 2.85% and 2.25%, respectively. Bond interest expense included in other administrative expenses for the years ended September 30, 2018 and 2017 was $279,344 and $217,567, respectively.

The financial statements reflect the liability for bonds payable as of September 30, offset by related debt issuance costs. Amortization of capitalized interest and refinancing costs of $30,932 and $30,933 were recognized in 2018 and 2017, respectively. Net bonds payable as of September 30:

		2018		2017
Bonds payable	**$**	**10,800,000**	$	10,800,000
Less: capitalized interest refinancing costs (net)		**(390,556)**		(421,488)
Net bonds payable	**$**	**10,409,444**	$	10,378,512

9. Retirement Plans

401(k) Plan

Included in salaries and fringe benefits are contributions to a qualified defined contribution 401(k) plan. The Foundation maintains this plan, established under Section 401(k) of the Internal Revenue Code (the Code), for all of its employees. Upon the start of employment, employees may defer a portion of their salary up to the maximum amount allowable under section 415 of the Code. Employees become eligible for employer contributions upon the completion of one year of service, at which time the Foundation is required to contribute 12% of eligible employees' total compensation to the plan. During 2018 and 2017, the Foundation's contributions to the 401(k) plan and related expenses totaled $169,998 and $198,800, respectively. Participants are fully vested in all contributions.

457(b) Plans

The Foundation also maintains two separate defined contribution retirement plans under Section 457(b) of the Code (the 457(b) Plans) for certain eligible employees. Eligibility to participate in the 457(b) Plans is reviewed by an internal sub-committee that reports to the Finance Committee of the Board of Directors. The Plans are unfunded plans maintained primarily for the purpose of providing deferred compensation benefits for a select group of management employees. Under the 457(b) Plans, all employer contributions and any investment earnings are solely the property and rights of the Foundation and are subject to claims of the Foundation's general creditors until such amounts are paid or made available to the participant or beneficiary. Accordingly, participants' rights under these 457(b) Plans are equal to those of a general creditor of the Foundation until such amounts are paid or made available to the participant or beneficiary. As of September 30, 2018 and 2017, 457(b) Plan assets totaled $102,352 and $70,313, respectively, and were included in prepaid expenses, taxes and other assets with an equivalent offset in accrued expenses, taxes, and other liabilities in the accompanying statements of financial position.

Included in salaries and fringe benefits are contributions to the 457(b) Plan and related expenses of $40,078 for the year ended September 30, 2018. No contributions were made to the Plans for the year ended September 30, 2017.

10. Grants

Grants consisted of the following as of September 30:

	2018	2017
Current year:		
Grants approved	**$ 21,588,603**	$ 20,954,287
Deferred multi-year grant discount	**-**	(13,000)
Contributed rental space	**197,624**	189,463
	21,786,227	21,130,750
Prior years:		
Returned grants	**(33,604)**	(64,659)
Net grants	**$ 21,752,623**	$ 21,066,091

Grants payable were $1,372,000 and $1,417,000 at September 30, 2018 and 2017, respectively.

11. Minimum Distribution Requirement

The Internal Revenue Code requires that qualifying distributions be paid in accordance with a specified formula. At September 30, 2018, the Foundation had excess distributions that can be carried over to fiscal year 2019 of approximately $4,500,000. These carryover distributions can be applied towards the fiscal year 2019 minimum distribution requirement.

12. Supplemental Disclosure of Cash Flow Information

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

	2018	2017
Interest expense paid	**$ 279,344**	$ 217,567
Excise and other taxes paid	**$ 559,260**	$ 411,617

13. Commitments

The Foundation and the Washington Legal Clinic for the Homeless (WLCH), a non-profit corporation, are committed under a lease agreement effective through September 30, 2019. The lease is renewable for additional consecutive one-year periods at WLCH's election. WLCH is required to pay the Foundation an annual Fixed Use Fee of One Dollar per year and has exercised its option to renew on a year-to-year basis.

The fair market value of the rental income and grant expense related to the agreement was $197,624 and $189,463 for the years ended September 2018 and 2017 respectively, and is included in the statements of activities.

14. Subsequent Events

The Foundation evaluated subsequent events through August 6, 2019, which is the date the financial statements were available to be issued. There were no events noted that required adjustment to or disclosure in these financial statements.