PERMIAN BASIN AREA
Foundation

Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

With Independent Auditor's Report

JOHNSON & SHELDON, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Permian Basin Area Foundation
Consolidated Financial Statements

December 31, 2017 and 2016

Contents

Board of Governors
Permian Basin Area Foundation
Midland, Texas

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of **Permian Basin Area Foundation** (the Foundation) which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 audits 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 Foundation'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 Foundation'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 consolidated financial position of the Foundation as of December 31, 2017 and 2016, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Johnson & Sheldon, PLLC

Johnson & Sheldon, PLLC
Amarillo, Texas
April 20, 2018

Consolidated Financial Statements

Permian Basin Area Foundation

Consolidated Statements of Financial Position

Assets

	December 31 2017	December 31 2016
Assets:		
Cash and cash equivalents	**$ 10,146,063**	$ 4,454,158
Investments (Note 3)	**142,070,428**	104,348,330
Prepaid expenses	**43,789**	29,660
Accrued interest receivable	**41,710**	75,153
Beneficial interest in remainder trust (Note 9)	**1,522,048**	1,075,856
Beneficial interest in lead trust (Note 11)	**1,127,778**	1,235,277
Beneficial interest in perpetual trust	**49,625**	45,208
Oil and gas royalties	**16,171,597**	16,152,787
Land	**302,813**	302,813
Building development costs (Note 12)	**2,288,093**	125,335
Real estate – held for sale	**1,125,000**	0
Mineral classified properties	**0**	60,240
Limited partnership interest	**34,950**	34,950
Cash surrender value of life insurance	**161,956**	85,832
Fixed assets, net of accumulated depreciation of $101,556 and $102,562 in 2017 and 2016, respectively	**165,355**	22,095
Total Assets	**$ 175,251,205**	$ 128,047,694

Liabilities and Net Assets

	2017	2016
Liabilities:		
Grants and scholarships payable	**$ 45,000**	$ 641,600
Funds held for agencies (Note 7)	**19,334,706**	17,108,496
Total liabilities	**19,379,706**	17,750,096
Net Assets:		
Unrestricted (Note 8)	**144,815,435**	100,042,537
Temporarily restricted (Note 8)	**9,006,439**	8,209,853
Permanently restricted (Note 8)	**2,049,625**	2,045,208
Total net assets	**155,871,499**	110,297,598
Total Liabilities and Net Assets	**$ 175,251,205**	$ 128,047,694

See accompanying notes to consolidated financial statements and independent auditor's report.

Permian Basin Area Foundation

Consolidated Statements of Activities

	Years ended December 31	
Changes in Unrestricted Net Assets	***2017***	***2016***
Revenues and gains		
Contributions	**$ 9,503,291**	$ 3,015,721
Investment income	**2,487,199**	2,006,553
Net realized gain on investments	**5,106,059**	128,399
Net unrealized gain on investments	**4,538,699**	4,344,871
Royalty income	**3,927,128**	3,766,233
Change in value of oil and gas royalties	**18,810**	754,744
Special event revenue	**100,234**	109,078
Gain on sale of oil and gas royalties	**27,439,760**	0
Grant rescissions and other income	**35,455**	128,748
Total unrestricted revenues and gains	**53,156,635**	14,254,347
Net assets released from restrictions		
Satisfaction of program and time restrictions	**609,461**	641,433
Total unrestricted revenues, gains and other support	**53,766,096**	14,895,780
Grants and expenses		
Grants and scholarships	**6,941,662**	7,293,216
Program services	**347,061**	378,516
Costs of direct benefits to donors	**33,648**	29,678
General and administrative	**1,496,413**	1,271,436
Fundraising	**174,414**	183,360
Total grants and expenses	**8,993,198**	9,156,206
Increase in unrestricted net assets	**44,772,898**	5,739,574
Changes in Temporarily Restricted Net Assets		
Investment income	**169,952**	226,571
Net realized gain on investments	**524,032**	152,605
Net unrealized gain on investments	**247,982**	325,399
Change in value of split interest agreement	**464,081**	299,925
Change in value of bequest receivable	**0**	17,664
Net assets released from restrictions	**(609,461)**	(641,433)
Increase in temporarily restricted net assets	**796,586**	380,731
Changes in Permanently Restricted Net Assets		
Change in value of perpetual trust	**4,417**	936
Increase in permanently restricted net assets	**4,417**	936
Increase in net assets	**45,573,901**	6,121,241
Net assets at beginning of year	**110,297,598**	104,176,357
Net assets at end of year	**$ 155,871,499**	$ 110,297,598

See accompanying notes to consolidated financial statements and independent auditor's report.

Permian Basin Area Foundation

Consolidated Statements of Cash Flows

	Years ended December 31 2017	2016
Cash flows from operating activities		
Increase in net assets	**$ 45,573,901**	$ 6,121,241
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:		
Depreciation	**8,746**	7,710
Gift of real estate	**(1,125,000)**	0
Realized gains from sales of investments, net	**(6,559,918)**	(313,982)
Unrealized gain on investments, net	**(5,822,733)**	(5,604,345)
Gain on disposal of oil and gas royalties	**(27,439,760)**	0
Change in value of split interest agreements	**(343,110)**	(172,233)
Change in value of bequests receivable	**0**	(17,665)
Change in value of oil and gas royalties	**(18,810)**	(754,744)
Increase in cash surrender value of life insurance	**(76,124)**	(81,244)
Increase (decrease) in grants payable	**(596,600)**	546,600
Increase in funds held for agencies	**2,226,210**	1,502,459
(Increase) decrease in prepaid expenses	**(14,129)**	11,075
Decrease in accrued interest receivable	**33,443**	6,219
Decrease in bequests receivable	**0**	162,028
Net cash provided by operating activities	**5,846,116**	1,413,119
Cash flows from investing activities		
Purchases of fixed assets	**(152,006)**	(6,359)
Purchases of building construction costs	**(2,162,758)**	(98,335)
Purchases of investments	**(74,581,606)**	(32,401,584)
Proceeds from sale of oil and gas royalties	**27,500,000**	0
Proceeds from sales of investments	**49,242,159**	32,287,401
Net cash used for investing activities	**(154,211)**	(218,877)
Net increase in cash and cash equivalents	**5,691,905**	1,194,242
Cash and cash equivalents – Beginning of year	**4,454,158**	3,259,916
Cash and cash equivalents – End of year	**$ 10,146,063**	$ 4,454,158

See accompanying notes to consolidated financial statements and independent auditor's report.

1. Description of Organization

Permian Basin Area Foundation (the Foundation) is a Texas non-profit corporation classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) and as a non-private foundation under Section 509(a)(1) of the Internal Revenue Code (the Code). The Foundation is a community foundation that primarily serves West Texas. In partnership with many donors, the Foundation facilitates the creation of permanent charitable funds and provides grants to address community needs and enrich the quality of life in the Permian Basin.

The accompanying consolidated financial statements include the accounts of West Texas Heritage Holdings, Inc., a Type 1 supporting organization which was established in 2010. As of December 31, 2017 and 2016, the balances of West Texas Heritage Holdings, Inc. primarily included mineral classified properties, a limited partnership interest and real property. All significant intercompany accounts and transactions have been eliminated.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Foundation's consolidated financial statements have been prepared on the accrual basis of accounting, which recognizes revenue and support when earned and expenses when incurred. The statements have been prepared in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities – Overall*. The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Net Asset Classifications

The Foundation complies with the FASB ASC Topic 958, *Not-for-Profit Entities – Overall* (FASB ASC 958), which 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). FASB ASC 958 also improves disclosures about an organization's endowment 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 Board of Governors, on the advice of legal counsel, has determined that the majority of the Foundation's net assets do not meet the definition of "endowment" under UPMIFA. The majority of the Foundation's net assets do meet the definition of "endowment" under FASB ASC 958, *Not-for-Profit Entities – Overall,* and are subject to the enhanced disclosures for all endowment funds. The Foundation is governed by the Articles of Incorporation of the Foundation, and contributions are subject to the terms of the Articles of Incorporation.

Certain contributions are received subject to other gift instruments, or provisions of specific agreements between donors and the Foundation.

2. Summary of Significant Accounting Policies, continued

Net Asset Classifications, continued

Under the terms of the Articles of Incorporation, the Board of Governors may modify any restriction or condition on the distribution of funds of any separate gift, devise, bequest or fund at its sole discretion. As a result of the ability to modify any restriction or condition on the distribution of funds, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

Temporarily restricted net assets represent those net assets resulting from gifts or grants received by the Foundation that are restricted as to purpose of use or period of time, such as for special projects, or the portion of permanently restricted funds that are not classified as permanently restricted. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Permanently restricted net assets represent the fair value of the original gift as of the gift date of funds that must be retained permanently in accordance with explicit donor stipulations and the change in value of perpetual trusts.

Endowment Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to protect the corpus of funds by minimizing risks from either market or credit factors and to increase the value of the corpus through the managed pursuit of investment opportunities. The objective rate of return of the investment pool is a rate that exceeds the sum of inflation, as measured by the Consumer Price Index, investment fees, administration fees, and the Foundation's distribution rate, over rolling five-year periods. Investment return is defined as the total return, including all income derived from an investment, realized and unrealized gains and losses, less all applicable expenses.

To achieve its objectives, the Foundation employs a strategy of defined asset allocation to diversify its position in permissible investments, disciplined re-balancing to maintain asset allocation, and diligent selection and performance monitoring of investment managers. The Foundation's investment allocation model is based on efficient portfolio theory using an anticipated return of the total portfolio of 10.00%, with a standard deviation of 11.05%. 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 amount available for distributions from endowment funds is determined annually by the Foundation's Board of Governors based on a percentage of the market value of the fund. In setting the distribution policy, the Board considers the total average rate of return for the previous twelve quarters, allowance for administrative and investment fees, and long-term objective of fund growth. The Board of Governors approved a distribution policy for 2017 of 4% for the majority of endowment funds and a distribution policy for 2016 of 5%.

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market accounts available for current use with an initial maturity of three months or less. Cash and cash equivalents included in brokerage accounts that represent resources that are not segregated for operating use are classified as investments.

Concentration of Credit Risk

The Foundation maintains bank accounts at various financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC). From time to time, the Foundation may have balances in bank accounts which exceed the federally insured limit. The Foundation does not anticipate any loss associated with balances in excess of the federally insured limit.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates. A significant estimate subject to change in the near future is fair value of investments, see Note 4.

Contributions

Contributions are recognized when a donor gives or makes a promise to give to the Foundation that is, in substance, unconditional and non-reciprocal. Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in unrestricted contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Royalty Income

Royalty income is recognized and recorded as received by the Foundation.

Fixed Assets

Fixed assets consist of furniture, fixtures and office equipment. Fixed assets are recorded at cost on date of purchase or estimated fair market value at the date of the gift. Expenditures over $500 and with a useful life of greater than one year are capitalized and depreciated over their useful lives. Expenditures less than $500 or with a useful life less than one year are charged to expense as they are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives (ranging from 5 to 7 years) of the assets. Depreciation expense for the years ended December 31, 2017 and 2016 was $8,746 and $7,710, respectively.

2. Summary of Significant Accounting Policies, continued

Investments

In accordance with FASB ASC 958 *Not-for-Profit Entities – Overall,* the Foundation records all investments in equity securities with readily determinable fair values and all investments in fixed income securities at fair value, as defined by ASC Topic 820 *Fair Value Measurements and Disclosures – Overall.*

Investment income, including interest and dividends, is recognized as earned.

Realized gains or losses on investments represent the difference between the book value of investments and the sales proceeds. Unrealized gains or losses represent the difference between the beginning of year value or purchase date during the year and end of year value. The carrying amount of investments approximates fair value.

Fair Value Measurements

The Foundation complies with FASB ASC Topic 820 *Fair Value Measurements and Disclosures – Overall* (FASB ASC 820). FASB ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands disclosures about fair value measurements.

Funds Held For Agencies

Funds held for agencies represent assets transferred to the Foundation for investment management or other specified purposes by various non-profit organizations and other entities that have designated themselves as the beneficiaries in reciprocal transactions.

The Foundation maintains variance power and legal ownership of these funds, and as such, reports the funds as assets of the Foundation. However, in accordance with FASB ASC Topic 958 *Not-for-Profit Entities – Overall,* a liability has been established for the fair value of these funds, which is generally equivalent to the present value of future payments expected to be made to the not-for-profit organizations and others that are the ultimate recipients.

Donated Services

Many individuals volunteer their time and perform a variety of tasks to support the Foundation. The value of volunteer services donated to the Foundation is not readily measurable and, accordingly, is not included as support and revenues and expenses in the accompanying consolidated financial statements.

Functional Expense Allocations

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Expenses relating to more than one function are allocated to program service, general and administrative and fundraising costs based on employee time estimates or other appropriate allocation factors. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation.

2. Summary of Significant Accounting Policies, continued

Grants, Scholarships and Program Services

Grants, scholarships and program services represent amounts awarded to various not-for-profit organizations to assist with funding of general operations, capital improvements or programs. Scholarships are awarded to eligible area applicants to assist with postsecondary education. Grants and program services also include the direct cost of conducting the grants and scholarships programs. Grants and scholarships payable consist of unconditional amounts awarded, but not paid, to not-for-profit organizations.

Income Taxes

The Foundation is exempt from federal income tax under section 501(a) as a Foundation described in section 501(c)(3) of the Internal Revenue Code (the Code), and has been determined not to be a private foundation under section 509(a) of the Code. As a result, income taxes are not included in the Foundation's consolidated financial statements.

The Foundation complies with FASB ASC Topic 740, *Accounting for Uncertainty in Income Taxes* (Topic 740), which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods

Management evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal tax authorities for years ending before 2014.

Subsequent Events

Management of the Foundation has evaluated subsequent events through April 20, 2018, the date the financial statements were available to be issued. See Note 13 for management's evaluation of subsequent events.

Recent Accounting Pronouncements

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 simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2017. The Foundation is currently evaluating the effect that the standard will have on the consolidated financial statements.

3. Investments

Securities and other investments are managed by various investment managers approved by the Foundation. The majority of investments are held under a master custodial arrangement with a financial institution. Investments are stated at fair value and consist of the following at December 31:

	2017	2016
Cash equivalents	$ 32,997,622	$ 4,502,257
Bonds – tax exempt	1,693,373	6,120,831
Bonds – government agencies	1,017,532	1,065,541
Bonds – corporate	2,208,749	725,296
Bonds – collateralized mortgage obligations	226,661	45,344
Equities – foreign	6,665,059	9,001,748
Equities – domestic	66,329,215	58,502,561
Equity funds	26,520,640	20,651,701
Bond funds	4,411,577	3,733,051
Total Investments, at fair value	$ 142,070,428	$ 104,348,330

4. Fair Value Measurements

The Foundation complies with FASB ASC Topic 820-10, *Fair Value Measurements* (FASB ASC 820-10), which provides a framework for measuring fair value under generally accepted accounting principles. FASB ASC 820-10 applies to all financial instruments that are being measured and reported on a fair value basis. As defined in FASB 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. In determining fair value, the Foundation uses various methods including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Foundation also complies with the provisions of FASB ASC 820-10 related to non-financial assets and liabilities if recognized or disclosed in the financial statements at least annually.

4. Fair Value Measurements, continued

Based on the observability of the inputs used in the valuation techniques the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities. Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3: Unobservable inputs that are not corroborated by market data. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to FASB ASC 820-10. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. During the years ended December 31, 2017 and 2016, there were no changes to the Foundation's valuation techniques that had, or are expected to have, a material impact on its consolidated financial position or results of operations.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- The carrying amount of *cash equivalents* approximates fair value because of the short-term nature and liquidity of the financial instrument.
- *Bonds* are based on the present value of the stream of cash flows it is expected to generate and the active market of similar bonds being traded in the marketplace.
- *Equities* are valued at the closing price on the last business day of the year.
- Fair value of *beneficial interests in remainder and lead trusts* is calculated by determining the present value of the future cash flows.
- Fair value of *beneficial interests in perpetual trusts* is calculated based on the fair value of the underlying assets in the trust as determined by the third party trustee. The third party trustee controls the investments in the trust and makes all management and investment decisions.
- Fair value of the *oil and gas royalties* at December 31, 2017 and 2016 was estimated using 60 months of net revenue, an industry accepted valuation method.
- Fair value of the *real estate held for sale* at December 31, 2017 was estimated based on a broker's price opinion, and discounted for market uncertainties.

4. Fair Value Measurements, continued

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy.

Fair Value Measurements at December 31, 2017 Using

Assets	**Totals**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments:				
Cash equivalents	$ 32,997,622	$ 32,997,622	$ 0	$ 0
Bonds – tax exempt	1,693,373	1,693,373	0	0
Bonds – government agency	1,017,532	1,017,532	0	0
Bonds – corporate	2,208,749	2,208,749	0	0
Bonds – collateralized mortgage obligations	226,661	0	226,661	0
Equities – foreign	6,665,059	6,665,059	0	0
Equities – domestic	66,329,215	66,329,215	0	0
Equity funds	26,520,640	26,520,640	0	0
Bond funds	4,411,577	4,411,577	0	0
Total Investments	142,070,428	141,843,767	226,661	0
Bequests receivable	0	0	0	0
Beneficial interest in remainder trust	1,522,048	0	0	1,522,048
Beneficial interest in lead trust	1,127,778	0	0	1,127,778
Beneficial interest in perpetual trust	49,625	0	0	49,625
Oil and gas royalties	16,171,597	0	0	16,171,597
Real estate – held for sale	1,125,000	0	0	1,125,000
Limited partnership interest	34,950	0	0	34,950

4. Fair Value Measurements, continued

Fair Value Measurements at December 31, 2016 Using

Assets	Totals	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Cash equivalents	$ 4,502,257	$ 4,502,257	$ 0	$ 0
Bonds – tax exempt	6,120,831	6,120,831	0	0
Bonds – government agency	1,065,541	1,065,541	0	0
Bonds – corporate	725,296	725,296	0	0
Bonds – collateralized mortgage obligations	45,344	0	45,344	0
Equities – foreign	9,001,748	9,001,748	0	0
Equities – domestic	58,502,561	58,502,561	0	0
Equity funds	20,651,701	20,651,701	0	0
Bond funds	3,733,051	3,733,051	0	0
Total Investments	104,348,330	104,302,986	45,344	0
Beneficial interest in remainder trust	1,075,856	0	0	1,075,856
Beneficial interest in lead trust	1,235,277	0	0	1,235,277
Beneficial interest in perpetual trust	45,208	0	0	45,208
Oil and gas royalties	16,152,787	0	0	16,152,787
Limited partnership interest	34,950	0	0	34,950

4. Fair Value Measurements, continued

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Beneficial Interest in Remainder Trust	Beneficial Interest in Lead Trust	Beneficial Interest in Perpetual Trust	Oil and Gas Royalties	Real Estate – Held for Sale	Limited Partnership Interest
Balance at January 1, 2016	$ 1,055,097	$ 1,084,738	$ 44,273	$ 15,398,043	$ 0	$ 34,950
Distribution from trust	0	(128,627)	0	0	0	0
Change in value	20,759	279,166	935	754,744	0	0
Balance at December 31, 2016	$ 1,075,856	$ 1,235,277	$ 45,208	$ 16,152,787	$ 0	$ 34,950
Balance at January 1, 2017	$ 1,075,856	$ 1,235,277	$ 45,208	$ 16,152,787	$ 0	$ 34,950
Distribution from trust	0	(125,388)	0	0	0	
Contribution	0	0	0	0	1,125,000	
Change in value	446,192	17,889	4,417	18,810	0	
Balance at December 31, 2017	$ 1,522,048	$ 1,127,778	$ 49,625	$ 16,171,597	$ 1,125,000	$ 34,950

Process of Measuring Fair Value of Level 3 Assets

The Controller, under the supervision of the CEO and the Foundation's Audit Committee, determines the fair value measurement procedures for financial assets classified as Level 3. These procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted as necessary based on current market conditions and other third party information.

In determining the reasonableness of the methodologies used to determine fair value, the Controller, under the supervision of the CEO and the Foundation's Audit Committee, evaluates a variety of factors including a review of existing agreements, economic conditions, and industry and market developments. Certain unobservable inputs are assessed through review of contract terms, such as duration or payout data, while others are substantiated utilizing available market data, such as discount rates and mortality tables.

4. Fair Value Measurements, continued

Quantitative Information about Level 3 Fair Value Measurements

	Valuation Techniques	Unobservable Input	Range
Beneficial Interest in Remainder Trust	Discounted cash flow	Discount rate Life expectancy	6.64% - 5.78% 18 to 19 years
Beneficial Interest in Lead Trust	Discounted cash flow	Discount rate	8%
Beneficial Interest in Perpetual Trust	Fair value of underlying assets	Percentage of ownership	.3%
Oil and Gas Royalties	Market comparables	Revenue multiple	60 months of net revenue
Real estate – held for sale	Broker's Price Opinion	Sales of commercial properties Discount rate	$14 - $15 per square foot 26%

5. Retirement Plan

The Foundation provides a Simplified Employee Pension Plan (SEP), to which a portion of each qualified participant's salary is contributed by the Foundation. Contributed funds vest immediately to the participant, who self directs the investment of the funds. The amounts contributed to the SEP by the Foundation during 2017 and 2016 were $62,556 and $58,105, respectively.

The Foundation also sponsors a defined contribution 403(b) plan that allows employees to defer a portion of their compensation by contributing to the plan. Investments in an employee's 403(b) account are also directed by the participant.

6. Risks and Uncertainties

The Foundation invests a substantial portion of its assets in various investment securities. Investment securities, in general, are exposed to various risks, such as interest rate fluctuations and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the consolidated financial statements.

7. Agency Transfers Subject to FASB ASC 958 (formerly SFAS 136)

The Foundation follows the provisions of FASB ASC 958, which establishes standards for transactions in which the Foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor.

FASB ASC 958 specifically requires that if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself or one of its affiliated organizations as the beneficiary of the fund, the community foundation must account for the transfer of such assets and the activity associated with those assets as a liability.

The Foundation maintains variance power, as described in the Articles of Incorporation of the Foundation, and legal ownership over these funds and, as such, continues to report the funds as assets of the Foundation. Variance power assures donors that if the charitable purpose of their contribution becomes impractical or impossible, the distributions will be directed to similar purposes in the community.

A liability for agency transfers subject to FASB ASC 958 has been established in the consolidated statements of financial position for the fair value of $19,334,706 and $17,108,496 at December 31, 2017 and 2016, respectively. All financial activity for the years ended December 31, 2017 and 2016, related to these assets is also segregated from the consolidated statements of activities and has been reclassified to the liability.

The following table summarizes activity in such funds during the years ended December 31:

	2017	2016
Funds held for agencies at January 1	$ 17,108,496	$ 15,606,037
Contributions received for agencies	802,148	1,223,302
Investment income	390,551	397,061
Realized gain on investments	929,827	32,978
Unrealized gain (loss) on investments	1,036,052	934,075
Investment fees	(140,594)	(125,895)
Amounts granted to agencies	(614,070)	(799,867)
Administrative fees	(177,754)	(159,645)
Funds reclassified to (from) agency	50	450
Funds held for agencies at December 31	$ 19,334,706	$ 17,108,496

8. Net Assets

During the years ended December 31, 2017 and 2016, the Foundation had the following endowment-related activities:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 95,013,286	$ 8,209,853	$ 2,045,208	$ 105,268,347
Interest and dividends, net of investment expense	1,868,075	107,282	0	1,975,357
Realized gain on investments	5,106,058	524,032	0	5,630,090
Net appreciation (depreciation)	4,557,507	712,063	4,417	5,273,987
Contributions	4,571,283	0	0	4,571,283
Amounts appropriated for expenditure	(4,586,092)	(355,000)	0	(4,941,092)
Other changes	24,179,255	(191,791)	0	23,987,464
Changes in endowment net assets	35,696,086	796,586	4,417	36,497,089
Endowment net assets, end of year	$130,709,372	$ 9,006,439	$ 2,049,625	$141,765,436

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 90,553,862	$ 7,829,122	$ 2,044,272	$ 100,427,256
Interest and dividends, net of investment expense	1,461,983	162,289	0	1,624,272
Realized gain on investments	128,399	152,605	0	281,004
Net appreciation (depreciation)	5,099,614	642,988	936	5,743,538
Contributions	2,493,706	0	0	2,493,706
Amounts appropriated for expenditure	(5,541,106)	(229,000)	0	(5,770,106)
Other changes	816,828	(348,151)	0	468,677
Changes in endowment net assets	4,459,424	380,731	936	4,841,091
Endowment net assets, end of year	$ 95,013,286	$ 8,209,853	$ 2,045,208	$105,268,347

8. Net Assets, continued

As of December 31, 2017 and 2016, the composition of the Foundation's endowment funds was as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	$ 0	$ 9,006,439	$ 2,049,625	$ 11,056,064
Board Designated Endowment Funds:				
Undesignated	5,010,646	0	0	5,010,646
Scholarship	12,542,875	0	0	12,542,875
Donor Advised	27,244,711	0	0	27,244,711
Donor Designated	11,646,797	0	0	11,646,797
Field of Interest	74,264,343	0	0	74,264,343
Total Board Designated	130,709,372	0	0	130,709,372
Total Endowment Funds	$ 130,709,372	$ 9,006,439	$ 2,049,625	$141,765,436

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	$ 0	$ 8,209,853	$ 2,045,208	$ 10,255,061
Board Designated Endowment Funds:				
Undesignated	4,466,235	0	0	4,466,235
Scholarship	11,877,358	0	0	11,877,358
Donor Advised	22,779,506	0	0	22,779,506
Donor Designated	9,682,565	0	0	9,682,565
Field of Interest	46,207,622	0	0	46,207,622
Total Board Designated	95,013,286	0	0	95,013,286
Total Endowment Funds	$ 95,013,286	$ 8,209,853	$ 2,045,208	$105,268,347

8. Net Assets, continued

In addition to endowment net assets, the Foundation also manages other non-endowed funds. The following tables summarize all Foundation net assets as of December 31, 2017 and 2016:

	2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment Funds	$ 130,709,372	$ 9,006,439	$ 2,049,625	$ 141,765,436
Non-Endowment Funds:				
Donor Advised	2,569,098	0	0	2,569,098
Field of Interest	7,227,097	0	0	7,227,097
Scholarship	220,461	0	0	220,461
Administration Fund	4,089,407	0	0	4,089,407
Total Net Assets	$144,815,435	$ 9,006,439	$ 2,049,625	$155,871,499

	2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment Funds	$ 95,013,286	$ 8,209,853	$ 2,045,208	$ 105,268,347
Non-Endowment Funds:				
Donor Advised	640,399	0	0	640,399
Field of Interest	3,128,111	0	0	3,128,111
Scholarship	2,000	0	0	2,000
Administration Fund	1,258,741	0	0	1,258,741
Total Net Assets	$100,042,537	$ 8,209,853	$ 2,045,208	$110,297,598

9. Beneficial Interest in Remainder Trust

The Foundation received notice during 2007 that it is the sole residual beneficiary of certain charitable remainder trusts, one of which is of material value to the Foundation. Upon the death of this trust's beneficiary, the remaining principal and income in the trust will be distributed to the Foundation. The future interest in the trust as of December 31, 2017 and 2016, respectively, of $1,522,048 and $1,075,856 has been recorded at estimated net present value considering estimated future trust earnings and expected future beneficiary distributions, assuming an annual rate of return for the years ended December 31, 2017 and 2016, respectively, of 6.64% and 5.78%, and assuming the trust terminates in the year 2036.

10. Major Contributors

Contributions from one major donor totaled $2,500,000, or 26% of total contributions received for the year ended December 31, 2017. Contributions from a second major donor totaled $2,059,186, or 22% of total contributions received for the year ended December 31, 2017. Contributions from a third major donor totaled $1,125,000, or 12% of total contributions received for the year ended December 31, 2017. Contributions from a fourth major donor totaled $1,000,000, or 11% of total contributions received for the year ended December 31, 2017.

Contributions from one major donor totaled $600,000, or 20% of total contributions received for the year ended December 31, 2016. Contributions from a second major donor totaled $500,000, or 17% of total contributions received for the year ended December 31, 2016. Contributions from a third major donor totaled $400,000, or 13% of total contributions received for the year ended December 31, 2016. Contributions from a fourth major donor totaled $346,581, or 11% of total contributions received for the year ended December 31, 2016.

11. Beneficial Interest in Lead Trust

The Foundation received notice during 2012 that it is the sole beneficiary of a charitable lead trust. During each year of the trust, the Foundation will receive an annuity equal to seven percent of the initial fair market value of the trust assets. The trust will continue for a term of eighteen years. During 2016, the financial account for the charitable lead trust was established, and the future interest in the trust has been recorded at December 31, 2017 and 2016 at the net present value of the estimated future payments in the amount of $1,127,778 and $1,235,277 respectively, assuming a discount rate of 8%.

12. Building Development Costs

In early 2017, the Foundation entered into a contract with a construction company for the construction of a new building to house the Foundation offices, for the contracted price of $3,349,576 due in installments as the project progresses. The sources of cash flows to be used to pay for the building are unrestricted net assets. Construction began in 2017 and the project is expected to be completed by June 2018.

13. Subsequent Event

In January 2018, the Foundation entered into a contract with a firm to market its oil and gas royalty interests held in the names of certain of its component funds. The contract does not obligate the Foundation to sell these assets. However, if significant value can be realized with potential sale(s), the Board of Governors of the Foundation may authorize sale(s) given recent trends in oil and gas transactions.