PERMIAN BASIN AREA
Foundation

Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

With Independent Auditor's Report

JOHNSON & SHELDON, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Permian Basin Area Foundation
Consolidated Financial Statements

December 31, 2016 and 2015

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JOHNSON & SHELDON, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Board of Governors
Permian Basin Area Foundation
Midland, Texas

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements
We have audited the accompanying financial statements of **Permian Basin Area Foundation** (the Foundation) which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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, 2016 and 2015, 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
April 18, 2017

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Consolidated Financial Statements

Permian Basin Area Foundation

Consolidated Statements of Financial Position

Assets

	December 31 2016	December 31 2015
Assets:		
Cash and cash equivalents	$ **4,454,158**	$ 3,259,916
Investments (Note 3)	**104,348,330**	98,315,820
Prepaid expenses	**29,660**	40,735
Accrued interest receivable	**75,153**	81,372
Bequests receivable (Note 10)	**0**	144,363
Beneficial interest in remainder trust (Note 11)	**1,075,856**	1,055,097
Beneficial interest in lead trust (Note 13)	**1,235,277**	1,084,738
Beneficial interest in perpetual trust	**45,208**	44,273
Oil and gas royalties	**16,152,787**	15,398,043
Real estate	**428,148**	329,813
Mineral classified properties	**60,240**	60,240
Limited partnership interest	**34,950**	34,950
Cash surrender value of life insurance (Note 15)	**85,832**	4,588
Fixed assets, net of accumulated depreciation of $102,562 and $97,637 in 2016 and 2015, respectively	**22,095**	23,446
Total Assets	$ **128,047,694**	$ 119,877,394

Liabilities and Net Assets

	2016	2015
Liabilities:		
Grants and scholarships payable	$ **641,600**	$ 95,000
Funds held for agencies (Note 8)	**17,108,496**	15,606,037
Total liabilities	**17,750,096**	15,701,037
Net Assets:		
Unrestricted (Note 9)	**100,042,537**	94,302,963
Temporarily restricted (Note 9)	**8,209,853**	7,829,122
Permanently restricted (Note 9)	**2,045,208**	2,044,272
Total net assets	**110,297,598**	104,176,357
Total Liabilities and Net Assets	$ **128,047,694**	$ 119,877,394

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

Permian Basin Area Foundation

Consolidated Statements of Activities

Changes in Unrestricted Net Assets	Years ended December 31 2016	2015
Revenues and gains		
Contributions	$ **3,015,721**	$ 4,549,562
Investment income	**2,006,553**	1,970,577
Net realized gain on investments	**128,399**	2,153,145
Net unrealized gain (loss) on investments	**4,344,871**	(7,194,218)
Royalty income	**3,766,233**	6,218,740
Change in value of oil and gas royalties	**754,744**	3,321,203
Special event revenue	**109,078**	108,386
Grant rescissions and other income	**128,748**	40,075
Total unrestricted revenues and gains	**14,254,347**	11,167,470
Net assets released from restrictions		
Satisfaction of program and time restrictions	**641,433**	2,441,487
Total unrestricted revenues, gains and other support	**14,895,780**	13,608,957
Grants and expenses		
Grants and scholarships	**7,293,216**	10,271,767
Program services	**378,516**	316,503
Costs of direct benefits to donors	**29,678**	32,170
General and administrative	**1,271,436**	1,141,468
Fundraising	**183,360**	252,516
Total grants and expenses	**9,156,206**	12,014,424
Increase in unrestricted net assets	**5,739,574**	1,594,533
Changes in Temporarily Restricted Net Assets		
Investment income	**226,571**	197,501
Net realized gain on investments	**152,605**	63,624
Net unrealized gain (loss) on investments	**325,399**	(145,623)
Change in value of split interest agreement	**299,925**	(574,657)
Change in value of bequest receivable	**17,664**	(214,659)
Net assets released from restrictions	**(641,433)**	(2,441,487)
Increase (decrease) in temporarily restricted net assets	**380,731**	(3,115,301)
Changes in Permanently Restricted Net Assets		
Change in value of perpetual trust	**936**	(2,233)
Increase (decrease) in permanently restricted net assets	**936**	(2,233)
Increase (decrease) in net assets	**6,121,241**	(1,523,001)
Net assets at beginning of year	**104,176,357**	105,699,358
Net assets at end of year	$ **110,297,598**	$ 104,176,357

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 2016	2015
Cash flows from operating activities		
Increase (decrease) in net assets	$ **6,121,241**	$ (1,523,001)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:		
Depreciation	**7,710**	7,311
Realized gains from sales of investments, net	**(313,982)**	(2,718,045)
Unrealized (gain) loss on investments, net	**(5,604,345)**	8,879,275
Change in value of split interest agreements	**(172,233)**	576,890
Change in value of bequests receivable	**(17,665)**	214,659
Change in value of oil and gas royalties	**(754,744)**	(3,321,203)
Increase in cash surrender value of life insurance	**(81,244)**	(4,588)
Increase (decrease) in grants payable	**546,600**	(290,022)
Increase (decrease) in funds held for agencies	**1,502,459**	(665,251)
(Increase) decrease in prepaid expenses	**11,075**	(7,695)
Decrease in accrued interest receivable	**6,219**	42,960
Decrease in bequests receivable	**162,028**	1,914,398
Net cash provided by operating activities	**1,413,119**	3,105,688
Cash flows from investing activities		
Purchases of fixed assets	**(6,359)**	(5,539)
Purchases of real estate construction costs	**(98,335)**	(329,813)
Purchases of investments	**(32,401,584)**	(70,399,995)
Proceeds from sales of investments	**32,287,401**	67,442,171
Net cash used for investing activities	**(218,877)**	(3,293,176)
Net increase (decrease) in cash and cash equivalents	**1,194,242**	(187,488)
Cash and cash equivalents – Beginning of year	**3,259,916**	3,447,404
Cash and cash equivalents – End of year	$ **4,454,158**	$ 3,259,916

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

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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 2012. As of December 31, 2016 and 2015, 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.

The Foundation also previously operated the *Nonprofit Management Center of the Permian Basin,* a program for the purpose of providing non-profit organizations in the Permian Basin region consulting services, training and information resources to improve organizational governance and operations. During 2012, a Texas non-profit corporation was formed for the purpose of operating the programs of the *Nonprofit Management Center of the Permian Basin* independent of the Foundation, and in 2013 the Internal Revenue Service recognized the new corporation as tax-exempt under Section 501(c)(3) of the Internal Revenue Code. During 2015, the Foundation distributed the net assets of *Nonprofit Management Center of the Permian Basin* programs to the new corporation.

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.

2. Summary of Significant Accounting Policies, continued

Net Asset Classifications, continued

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.

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.

2. Summary of Significant Accounting Policies, continued

Endowment Investment and Spending Policies, continued

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 2016 and 2015 of 5% each year.

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 cash 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.

2. Summary of Significant Accounting Policies, continued

Fixed Assets continued

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, 2016 and 2015 was $7,710 and $7,311, respectively.

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 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 2013.

Subsequent Events

The Foundation has evaluated subsequent events through April 18, 2017, the date the financial statements were available to be issued. See Note 14 for management's evaluation of subsequent events.

Recent Accounting Pronouncement

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.

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 at fair value and consist of the following at December 31:

	2016	2015
Cash equivalents	$ 4,502,257	$ 4,479,989
Bonds – tax exempt	6,120,831	6,541,337
Bonds – government agencies	1,065,541	742,396
Bonds – corporate	725,296	1,212,613
Bonds – collateralized mortgage obligations	45,344	50,381
Equities – foreign	9,001,748	14,231,770
Equities – domestic	58,502,561	49,658,654
Equity funds	20,651,701	17,951,182
Bond funds	3,733,051	3,447,498
Total Investments, at fair value	$104,348,330	$ 98,315,820

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.

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.

4. Fair Value Measurements, continued

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, 2016 and 2015, 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, 2016 and 2015 was estimated using 60 months of net revenue, an industry accepted valuation method.
- Bequests receivable are valued based on the underlying assets included in the receivable, which consisted of equities, real property, and cash as of December 31, 2015.

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, 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
Bequests receivable	0	0	0	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 at December 31, 2015 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	$ 4,479,989	$ 4,479,989	$ 0	$ 0
Bonds – tax exempt	6,541,337	6,541,337	0	0
Bonds – government agency	742,396	742,396	0	0
Bonds – corporate	1,212,613	1,212,613	0	0
Bonds – collateralized mortgage obligations	50,381	0	50,381	0
Equities – foreign	14,231,770	14,231,770	0	0
Equities – domestic	49,658,654	49,658,654	0	0
Equity funds	17,951,182	17,951,182	0	0
Bond funds	3,447,498	3,447,498	0	0
Total Investments	98,315,820	98,265,439	50,381	0
Bequests receivable	144,363	0	144,363	0
Beneficial interest in remainder trust	1,055,097	0	0	1,055,097
Beneficial interest in lead trust	1,084,738	0	0	1,084,738
Beneficial interest in perpetual trust	44,273	0	0	44,273
Oil and gas royalties	15,398,043	0	0	15,398,043
Limited partnership interest	34,950	0	0	34,950

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	Limited Partnership Interest
Balance at January 1, 2015	$ 1,629,754	$1,084,738	$ 46,506	$ 12,076,840	$ 34,950
Change in value	$ (574,657)	0	(2,233)	3,321,203	0
Balance at December 31, 2015	$ 1,055,097	$1,084,738	$ 44,273	$ 15,398,043	$ 34,950
Balance at January 1, 2016	$ 1,055,097	$1,084,738	$ 44,273	$ 15,398,043	$ 34,950
Distribution from trust	0	(128,627)	0	0	0
Change in value	$ 20,759	279,166	935	754,744	0
Balance at December 31, 2016	$ 1,075,856	$1,235,277	$ 45,208	$ 16,152,787	$ 34,950

4. Fair Value Measurements, continued

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.

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	5.78% - 6.36% 19 to 20 years
Beneficial Interest in Lead Trust	Discounted cash flow	Discount rate	8% - 10%
Beneficial Interest in Perpetual Trust	Fair value of underlying assets	Percentage of ownership	.3%
Oil and Gas Royalties	Market comparables	Revenue multiple	60 months

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 2016 and 2015 were $58,105 and $52,284, 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. Lease Commitment

The Foundation occupies office space for its corporate office in Midland, Texas, pursuant to a non-cancelable operating lease from an unrelated third party. Rental expense for the years ended December 31, 2016 and 2015, respectively, was $84,344 and $82,345. As of December 31, 2016, the Foundation had future minimum payments under the non-cancelable operating lease as follows:

2017	$ 85,704
2018	42,852
Future Minimum Payments	$ 128,556

8. 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 $17,108,496 and $15,606,037 at December 31, 2016 and 2015, respectively. All financial activity for the years ended December 31, 2016 and 2015, related to these assets is also segregated in 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:

	2016	2015
Funds held for agencies at January 1	$ 15,606,037	$ 16,271,288
Contributions received for agencies	1,223,302	878,407
Investment income	397,061	318,090
Realized gain on investments	32,978	501,276
Unrealized gain (loss) on investments	934,075	(1,539,434)
Investment fees	(125,895)	(115,008)
Amounts granted to agencies	(799,867)	(545,477)
Administrative fees	(159,645)	(163,130)
Funds reclassified to (from) agency	450	25
Funds held for agencies at December 31	$ 17,108,496	$ 15,606,037

9. Net Assets

During the years ended December 31, 2016 and 2015, the Foundation had the following endowment-related activities:

	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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 89,111,599	$ 10,944,423	$ 2,046,505	$102,102,527
Interest and dividends, net of investment expense	1,452,483	131,515	0	1,583,998
Realized gain on investments	2,153,145	63,624	0	2,216,769
Net appreciation (depreciation)	(3,873,015)	(934,938)	(2,233)	(4,810,186)
Contributions	4,462,525	0	0	4,462,525
Amounts appropriated for expenditure	(9,818,670)	(402,500)	0	(10,221,170)
Other changes	7,065,795	(1,973,002)	0	5,092,793
Changes in endowment net assets	1,442,263	(3,115,301)	(2,233)	(1,675,271)
Endowment net assets, end of year	$ 90,553,862	$ 7,829,122	$ 2,044,272	$100,427,256

9. Net Assets, continued

As of December 31, 2016 and 2015, the composition of the Foundation's endowment funds was as follows:

	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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	$ 0	$ 7,829,122	$ 2,044,272	$ 9,873,394
Board Designated Endowment Funds:				
Undesignated	4,334,285	0	0	4,334,285
Scholarship	11,120,181	0	0	11,120,181
Donor Advised	23,664,110	0	0	23,664,110
Donor Designated	9,088,369	0	0	9,088,369
Field of Interest	42,346,917	0	0	42,346,917
Total Board Designated	90,553,862	0	0	90,553,862
Total Endowment Funds	$ 90,553,862	$ 7,829,122	$ 2,044,272	$100,427,256

9. 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, 2016 and 2015:

	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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Funds	$ 90,553,862	$ 7,829,122	$ 2,044,272	$ 100,427,256
Non-Endowment Funds:				
Donor Advised	394,487	0	0	394,487
Field of Interest	2,104,326	0	0	2,104,326
Scholarship	1,000	0	0	1,000
Administration Fund	1,249,288	0	0	1,249,288
Total Net Assets	$ 94,302,963	$ 7,829,122	$ 2,044,272	$104,176,357

10. Bequests Receivable

The Foundation received notice during 2014 that it was a beneficiary of the Estate of Freda Grist. The will was declared valid during 2014, and contribution revenue in the amount of $2,295,176 was recognized at the fair value of the assets expected to be received. During 2015, majority of the assets expected to be received from this estate were received.

Bequests receivable at December 31, 2015 of $144,363 reflects the estimated fair value of the assets expected to be received from this estate, which were received in 2016.

11. 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, 2016 and 2015, respectively, of $1,075,856 and $1,055,097 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, 2016 and 2015, respectively, of 5.78% and 6.36%, and assuming the trust terminates in the year 2036.

12. Major Contributors

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. Contributions from one major donor totaled $3,002,230 or 66% of the total contributions received for the year ended December 31, 2015.

13. 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 years equal to the lesser of twenty, or the minimum number of full years necessary to cause the amount of the estate tax charitable deduction attributable to the assets passing to the charitable lead trust to equal or exceed the value of the charitable lead trust assets, based on all the factors which determine the amount of the charitable deduction which were in effect at the time of the grantor’s death. As of December 31, 2015, the financial account for the charitable lead trust had not been established, so the future interest in the trust has been recorded at the estimated initial net present value of the estimated future payments, assuming a discount rate of 10%, of $1,084,738. 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, 2016 at the initial net present value of the estimated future payments in the amount of $1,235,277, assuming a discount rate of 8%.

14. Subsequent Event

Subsequent to December 31, 2016, 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 will begin in 2017, and the project is expected to be completed by June 2018.

15. Correction of Error

After the issuance of the audited financial statements for the years ended December 31, 2015 and 2014, it was discovered that the information used to determine the Cash Surrender Value of Life Insurance was misinterpreted, resulting in an overstatement of the Cash Surrender Value of Life Insurance as of December 31, 2015 and 2014 of $160,287 and $85,066, respectively. This error also resulted in an understatement of revenues and gains for the years ended December 31, 2015 and 2014 of $25,638 and $10,800, respectively, and an understatement of fundraising expenses for the years ended December 31, 2015 and 2014 of $100,859 and $95,867, respectively. These financial statements have been corrected to reduce the Cash Surrender Value of Life Insurance reflected in the Statement of Financial Position as of December 31, 2015 from $164,875 to $4,588, and to properly present revenues and gains, and fundraising expenses in the Statement of Activities for the year ended December 31, 2015, as described herein.