

San Antonio Area Foundation

Consolidated Financial Statements
and Supplementary Information
December 31, 2017

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RSM US LLP

Independent Auditor's Report

To the Audit Committee and the Board of Directors
San Antonio Area Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of San Antonio Area Foundation (the Foundation), which comprise the consolidated statement of financial position as of December 31, 2017, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated 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 the consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of San Antonio Area Foundation as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

San Antonio, Texas
July 24, 2018

San Antonio Area Foundation

Consolidated Statement of Financial Position December 31, 2017

Assets	
Cash and cash equivalents	\$ 104,430,267
Receivables:	
Contributions, net	4,035,750
Notes receivable	959,316
Other, net	4,887,598
Total receivables	<u>9,882,664</u>
Investments:	
Cash equivalent funds and securities	302,305,263
Limited liability companies and partnerships	33,089,208
Oil and gas interests	7,648,550
Real estate, leasing and theater operations, net	361,829,314
Total investments	<u>704,872,335</u>
Prepaid expenses and other assets	5,932,407
Beneficial interest in John L. Santikos Living Trust	2,564,566
Beneficial interest in perpetual trusts	34,521,470
Interest rate swaps	725,931
Headquarters and equipment, net	830,669
Goodwill	89,279,798
Collections (Note 8)	-
Total assets	<u>\$ 953,040,107</u>
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses	\$ 20,711,055
Grants and scholarships payable, net	11,470,097
Charitable gift annuities payable	135,365
Other liabilities	1,483,736
Long-term debt	87,232,564
Charitable funds held for the benefit of other organizations	17,582,638
Total liabilities	<u>138,615,455</u>
Net assets:	
Unrestricted:	
Designated for reserve fund	8,022,479
Donor advised and other designated funds	186,426,168
Undesignated	2,137,747
Total unrestricted net assets	<u>196,586,394</u>
Temporarily restricted net assets	567,016,265
Permanently restricted net assets	50,821,993
Total net assets	<u>814,424,652</u>
Total liabilities and net assets	<u>\$ 953,040,107</u>

See notes to consolidated financial statements.

San Antonio Area Foundation

Consolidated Statement of Activities Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:				
Foundation:				
Contributions and grants	\$ 31,588,847	\$ 4,840,064	\$ -	\$ 36,428,911
Investment income, net	5,743,619	1,247,536	-	6,991,155
Net realized and unrealized gains on investments	20,733,114	12,103,000	-	32,836,114
Mineral interest revenue, net	555,726	350,731	-	906,457
Change in value of perpetual trusts	-	-	9,736,221	9,736,221
Change in value of John L. Santikos Living Trust	-	5,799,193	-	5,799,193
Change in value of gift annuities	(198,378)	-	-	(198,378)
Program revenue	390,319	-	-	390,319
Administrative fees	2,967,621	(2,912,356)	-	55,265
Other income	106,687	17,651	-	124,338
Net assets released from restriction	18,293,622	(18,293,622)	-	-
	<u>80,181,177</u>	<u>3,152,197</u>	<u>9,736,221</u>	<u>93,069,595</u>
Enterprises:				
Rental income	-	14,189,126	-	14,189,126
Interest income	-	152,631	-	152,631
Investment income	-	578,986	-	578,986
Gain on sale of assets	-	4,337,991	-	4,337,991
Net assets released from restriction	18,677,137	(18,677,137)	-	-
	<u>18,677,137</u>	<u>581,597</u>	<u>-</u>	<u>19,258,734</u>
Total revenues and support	<u>98,858,314</u>	<u>3,733,794</u>	<u>9,736,221</u>	<u>112,328,329</u>
Expenses and distributions:				
Foundation:				
Grants and scholarships	42,632,783	-	-	42,632,783
Program services	3,963,281	-	-	3,963,281
Fundraising expense	811,734	-	-	811,734
General and administrative	5,590,023	-	-	5,590,023
	<u>52,997,821</u>	<u>-</u>	<u>-</u>	<u>52,997,821</u>
Enterprises:				
Other operating and administrative expenses	10,090,387	-	-	10,090,387
Depreciation and amortization	4,624,642	-	-	4,624,642
Interest expense	1,483,408	-	-	1,483,408
Impairment of long-lived assets	1,664,682	-	-	1,664,682
Other expenses	814,018	-	-	814,018
	<u>18,677,137</u>	<u>-</u>	<u>-</u>	<u>18,677,137</u>
Total expenses and distributions	<u>71,674,958</u>	<u>-</u>	<u>-</u>	<u>71,674,958</u>
Change in net assets	27,183,356	3,733,794	9,736,221	40,653,371
Net assets at beginning of year	169,403,038	563,282,471	41,085,772	773,771,281
Net assets at end of year	<u>\$ 196,586,394</u>	<u>\$ 567,016,265</u>	<u>\$ 50,821,993</u>	<u>\$ 814,424,652</u>

See notes to consolidated financial statements.

San Antonio Area Foundation

Consolidated Statement of Cash Flows December 31, 2017

Cash flows from operating activities:	
Change in net assets	\$ 40,653,371
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Impairment of long-lived assets	1,664,682
Depreciation and amortization	4,928,366
Net realized and unrealized gains on investments	(32,836,114)
Change in value of perpetual and charitable remainder trusts	(9,736,219)
Change in value of beneficial interest in John L. Santikos Living Trust	(5,799,193)
Change in value of derivatives	(766,818)
Gain on sale of assets	(4,334,478)
Net change in:	
Contributions receivable	(882,902)
Other receivables	(3,995,501)
Other assets and prepaid expenses	(2,177,392)
Accounts payable and accrued expenses	15,262,306
Grants payable	(878,109)
Other liabilities	(476,504)
Amounts held in custody for others	2,366,977
Net cash provided by operating activities	2,992,472
Cash flows from investing activities:	
Purchases of property and equipment	(13,631,342)
Proceeds from sale of assets	36,545,451
Collections on notes receivable	224,964
Purchases of investments	(95,332,888)
Proceed from sale of investments	68,751,212
Cash increase in theater entities transfer	42,591,732
Net cash provided by investing activities	39,149,129
Cash flows from financing activities:	
Net decrease in liabilities due to annuitants	(58,669)
Contribution from John L. Santikos Living Trust	33,532,981
Payments on long-term debt	(4,631,899)
Net cash provided by financing activities	28,842,413
Net increase in cash and cash equivalents	70,984,014
Cash and cash equivalents at beginning of year	33,446,253
Cash and cash equivalents at end of year	\$ 104,430,267
Supplemental disclosures of noncash flow information:	
Distribution by John L. Santikos Living Trust to the Foundation (Note 17)	\$ 238,652,849

See notes to consolidated financial statements.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 1. Foundation and Significant Accounting Policies

Description of the organization: The San Antonio Area Foundation (the Foundation) is a community trust established to promote, guide and manage philanthropy for the benefit of the residents of the San Antonio metropolitan area, Bexar County and surrounding counties. The Foundation is a Texas nonprofit corporation without members or capital stock, was incorporated on October 26, 1983 and is operated for religious, charitable, scientific, public safety, literary, educational, prevention of cruelty to children or animals and fostering national and international amateur sports competition purposes. Under the San Antonio Area Foundation Plan (the Plan), any individual, family, corporation or business may establish a trust under the Plan.

The accompanying consolidated financial statements include all funds held by or created for the benefit of the Foundation and its supporting organizations. The Foundation and its supporting organizations are recognized as public charities and have received determination letters from the Internal Revenue Service indicating they are exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code (the Code).

Basis of consolidation: The consolidated financial statements include the accounts of the Foundation (and all trusts created under the Plan), the supporting organizations and the various real estate entities. The Foundation has an economic interest in and maintains control of, through appointment of a majority of the members of the Board of Directors (the Board), each supporting organization. Throughout the consolidated financial statements, the consolidated entities are collectively referred to as the Foundation. All intercompany transactions and balances have been eliminated in the consolidated financial statements. The supporting organizations and their year of incorporation include:

- Gunn Family Foundation (1994)
- Richmond Family Foundation (2006)
- Warm Springs Foundation, Inc. (2007)
- Rapier Educational Foundation (2010)
- K Rapier Kids (2011)
- Choose to Succeed, Inc. (2012)
- Friends of the Carver Academy/IDEA (2013)
- The Cisneros Center for New Americans (2013)
- Unicity (2014)
- City Education Partners (2015)
- John L. Santikos Charitable Foundation (2015)
- Culinary Health Education for Families (2017)

In addition, the Foundation is the sole member of the following nonprofit corporations created to hold and manage donated real estate:

- San Antonio Area Foundation Real Estate Service #6 (2005)
- San Antonio Area Foundation Real Estate Service #7 (2007)
- San Antonio Area Foundation Real Estate Service #8 (2007)
- San Antonio Area Foundation Real Estate Service #9 (2007)
- San Antonio Area Foundation Real Estate Service #10 (2007)
- San Antonio Area Foundation Real Estate Service #11 (2007)
- San Antonio Area Foundation Real Estate Service #12 (2007)

During 2017, the Foundation held a beneficial interest in the John L. Santikos Living Trust (the JLS Trust). On December 31, 2017, the assets and liabilities of the Santikos Theaters, LLC were transferred through a series of steps from the JLS Trust to Santikos Enterprises, LLC (Enterprises). The John L. Santikos Charitable Foundation (Santikos Foundation), a supporting organization of the Foundation, is the sole member of Enterprises.

The assets remaining of \$2,564,566 in the JLS Trust, after the transfer of the theater assets and liabilities, are held by the trustee of the JLS Trust in accordance with the final accounting for the JLS Trust.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 1. Foundation and Significant Accounting Policies (Continued)

Also, on December 31, 2017, the Foundation transferred its membership interest in Enterprises, a Texas nonprofit corporation incorporated in 2015, to the Santikos Foundation. Enterprises is the sole member of Santikos Capital Company, LLC (Cap Co.), which was formed to guarantee the debt of Enterprises' real estate operations. After the completion of the transfers, Enterprises held and managed the following:

- Santikos Capital Company, LLC
- Santikos Silverado Realty, LLC
- Santikos Embassy Shopping Center, LLC
- Santikos Mayan Shopping Center, LLC
- Santikos Fredericksburg Road Realty, LLC
- Santikos Westlakes Shopping Center, LLC
- Santikos Legacy, LLC
- Santikos Nacogdoches Crossing, LLC
- Santikos Northpointe Shopping Center, LLC
- Santikos Military Crossing Shopping Center, LLC
- Santikos Culebra Warehouse, LLC
- Santikos Raw Land, LLC
- Santikos Silverado Raw Land, LLC
- Santikos Nacogdoches East, LLC
- Santikos 410 Raw Land, LLC
- Santikos Potranco Raw Land, LLC
- Santikos Bender's Landing Theater Realty, LLC
- Santikos Trinity Oaks Theater Realty, LLC
- Santikos Tri-County Parkway, LLC
- Santikos Ball Street, LLC
- Santikos Theaters, LLC
- Real Estate Services, LLC
- Santikos Palladium Realty, LLC
- Santikos Mayan Realty, LLC
- Santikos Silverado SA Theater Realty, LLC
- Santikos Westlakes Realty, Ltd.
- Santikos Cibolo Crossing Realty, LLC
- Santikos Casa Blanca SA Theater Realty, LLC
- Santikos Northwest 14 Theater Realty, LLC
- Santikos Rialto Theater Realty, LLC
- Santikos Embassy SA Theater Realty, LLC
- Santikos Northpointe Realty, Ltd.
- Santikos West Houston, Ltd.

Basis of presentation: The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). To ensure the observance of limitations and restrictions placed on the use of available resources, the Foundation maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting utilizes procedures by which resources for various purposes are classified for accounting purposes into funds that are maintained in accordance with activities or objectives of the Foundation.

For external reporting purposes, the Foundation's consolidated financial statements have been prepared to focus on the organization as a whole and to follow the reporting requirements of the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA) *Audit and Accounting Guide for Not-for-Profit Organizations*, which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into three classes of net assets—unrestricted, temporarily restricted, and permanently restricted.

Net asset classification: The Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) was enacted by the State of Texas effective September 1, 2007 (TUPMIFA). The Board of the Foundation interpreted TUPMIFA to require the Foundation to exercise prudence in determining the spend policy for donor-restricted endowment funds while honoring the perpetual nature expressed by the donor, unless otherwise stipulated.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 1. Foundation and Significant Accounting Policies (Continued)

In accordance with United States Treasury Regulations, the Foundation, as a community foundation, possesses the unilateral right of variance power to remove donor-imposed restrictions upon a gift in response to changed circumstances. This power is exercisable only in narrowly defined circumstances. When this power is specifically incorporated within gift instruments, by reference to variance power or the Foundation's bylaws or Plan, the Foundation views its variance power as an explicit expression of donor intent (collectively referenced throughout these financial statements as explicit variance power).

The Board has concluded that gifts to the Foundation may be subject to one or more of three types of donor-imposed restrictions: (1) contributions received with restrictions as to the purpose(s) for which the gift may be used (purpose restriction), (2) contributions received with a requirement that some or all of the gift be retained for a specified period of time or until a specified event occurs (time restriction) and (3) contributions received with a requirement that the principal of the gift be retained permanently (endowment restriction). The Board has determined that the Foundation's variance power applies to all three types of restrictions and that only those funds subject to time restrictions or endowment restrictions constitute endowment funds under TUPMIFA.

Unrestricted net assets: Unrestricted net assets consist of net assets that are not subject to donor-imposed restriction. The Foundation also classifies all funds with explicit variance power, subject only to purpose restrictions, as unrestricted net assets.

Temporarily restricted net assets: Funds with purpose restrictions and without explicit variance power are classified as temporarily restricted net assets. Funds subject to time restrictions with or without variance power are classified as temporarily restricted net assets until the expiration of the time restriction. For endowment funds explicitly acknowledging variance power, the Foundation classifies as temporarily restricted net assets (a) the original value of gifts contributed to the permanent endowment and perpetual trusts created under the Plan, (b) the original value of subsequent gifts to the permanent endowment and perpetual trusts created under the Plan and (c) accumulations to the permanent endowment and trusts created under the Plan made in accordance with the direction of the applicable donor gift instrument. As donor-restricted endowment funds with explicit variance power are classified as temporarily restricted net assets once amounts are appropriated for spending from these funds, such amounts are classified as unrestricted net assets until spent.

Permanently restricted net assets: For endowment funds lacking explicit variance power, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Amounts appropriated from donor-restricted endowment funds are classified as temporarily restricted if there is a donor purpose restriction on the accumulation and unrestricted in the absence of a donor-purpose restriction on the accumulation.

The following summarizes the types of restrictions with or without explicit variance power:

Restriction	With Explicit Variance Power	Without Explicit Variance Power
Purpose	Unrestricted	Temporarily restricted
Time	Temporarily restricted	Temporarily restricted
Endowment	Temporarily restricted	Permanently restricted
Unrestricted	Unrestricted	Unrestricted

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 1. Foundation and Significant Accounting Policies (Continued)

In accordance with TUPMIFA, the Foundation considers the following factors in determining whether to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund
- Purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- Possible effect of inflation and deflation
- Expected total return from income and the appreciation of investments
- Other resources of the Foundation
- Investment policies of the Foundation

Perpetual trusts for which the Foundation is not the trustee, created under the Plan, are classified as temporarily restricted and these trusts are included in the Foundation's endowment. Although the individual trustees determine the investment policies for these funds, the Foundation's Board determines the spending policies and maintains variance power over the ultimate distribution of these funds. Perpetual trusts held by third parties, not created under the Plan, are classified as permanently restricted net assets and beneficial interest in perpetual trusts.

In addition to contributions received with donor-imposed time restrictions or donor-imposed endowment restrictions, the Foundation also classifies its split-interest agreements, excluding charitable gift annuities (unless endowment restricted by the donor), as temporarily restricted due to the implied time restriction on the use of such assets. The Board concluded that split-interest funds, including charitable gift annuities, do not constitute institutional funds as defined by TUPMIFA, therefore, they do not constitute endowment funds. Substantially, all contributions received by the Foundation without a donor-imposed time restriction or a donor-imposed endowment restriction are classified as unrestricted. The Foundation holds 16 funds at December 31, 2017, which are purpose restricted, and the original gift instruments do not include explicit variance power, which are classified as temporarily (purpose) restricted.

Revenue recognition: Contribution revenue is recognized as revenue when received or unconditionally promised. Bequests are recognized as contribution revenue at the date the will is declared valid by the probate court and the amount to be received by the Foundation can be estimated. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions are recorded as unrestricted, temporarily restricted or permanently restricted based on the existence or nature of the restriction and in accordance with the Foundation's net asset classification policies. When a stipulated time restriction ends or donor restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributed services that create or enhance nonfinancial assets or that require specialized skills that are provided by individuals possessing those skills, and which would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. Contributions of assets other than cash are recorded at their estimated fair value on the gift date.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 1. Foundation and Significant Accounting Policies (Continued)

Revenues from commercial real estate operations are generated principally through monthly lease rentals. Minimum rents from tenants are recognized on a straight-line basis, net of rent abatements and contractual increases, over the term of the lease. Accordingly, the difference between rental income on a straight-line basis and rent contractually due to Enterprises is included in other liabilities in the accompanying consolidated statement of financial position.

Property operating cost recoveries from rentals of common area maintenance, real estate taxes and other recoverable costs are recognized in the period when the expenses are incurred.

Use of estimates: The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and to disclose contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: The Foundation considers all highly liquid investments with a maturity of three months or less when purchased, excluding cash equivalent funds held in the Foundation's investment portfolio, to be cash equivalents.

Contributions receivable, net: Contributions receivable include unconditional promises to give and are recognized in the period received by the Foundation. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Transfers of assets under conditional promises, which are received by the Foundation prior to fulfilling these conditions, are recorded as a liability (i.e., deferred revenue) until the conditions are substantially met.

Contributions to be received after one year are recorded at the present value of their estimated future cash flows using a discount rate which is commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in the same net asset class and fund as the original contribution. An allowance is made for uncollectable contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. As a result of this analysis, management has determined that no allowance is necessary (see Note 2).

Notes receivable: Notes receivable are carried at cost (face value) net of an allowance for loan losses. Generally, loans are placed on a nonaccrual basis when interest is considered uncollectible, unless the loan is well collateralized and/or collection is certain. Payments received on nonaccrual loans are applied first to interest and then principal. Once principal and interest are current, the debt instrument is placed back on accrual. Management uses all available information, including financial status of borrower and history of payments, to determine the need for an allowance on notes receivable. As a result of this analysis, management has determined that no allowance is necessary as of December 31, 2017 (see Note 3).

Other receivables, net: Other receivables consist primarily of tenant and credit card receivables and other receivables stated at net realizable value. Other receivables are reduced by an allowance for the amount that may become uncollectible in the future. The allowance for doubtful accounts is reviewed periodically for adequacy by reviewing such factors as the credit quality of tenants, delinquency in payment, historical trends and current economic conditions. Other receivables, net of allowance for doubtful accounts of \$455,069, totaled \$4,887,598 as of December 31, 2017.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 1. Foundation and Significant Accounting Policies (Continued)

Investments: Substantially all investments in cash equivalent funds and securities and investments in oil and gas interests are managed by various investment managers and trustees. The majority of investments are combined into four common investment pools (Legacy portfolio, Managed portfolio, 60/40 Index portfolio, and Money Market portfolio) and invested on the basis of a total return policy to provide income and to improve opportunities to realize appreciation in investment values (see Note 4).

Investments in cash equivalent funds and securities: Cash equivalent funds and securities are reported at fair value. The Foundation elected to report the fair value of its common trust funds and certain alternative investments such as direct lending, hedge funds and absolute return funds, for which quoted market prices are not available, using the practical expedient. The practical expedient allows for the use of net asset value (NAV) either as reported by the investee fund or as adjusted by Foundation management. Investments held at NAV, not valued using the practical expedient, are stated at fair value, or the best estimate of fair value as determined by the investment manager and/or the Foundation's management (see Note 4).

Investments in limited liability companies and partnerships: Investments in limited liability companies and partnerships are reported at fair value. Fair value is generally determined by independent appraisal at the time of donation and revalued annually by management (see Note 4).

Investments in oil and gas interests: Oil and gas interests are reported at fair value. Fair value is generally determined by independent appraisal at the time of donation and revalued annually by management. Investments in oil and gas interests include interests held in various trusts and others directly owned by one of the supporting organizations (see Note 4).

Investments in real estate, leasing and theater operations, net: Investments in real estate, leasing and theater operations consist primarily of land held for sale, real property and forms of real property interests, including buildings and equipment, which are used to produce lease income. The assets are carried at the lower of cost or fair value on gift date, if donated, net of accumulated depreciation. Substantially all investments in real estate and leasing operations were originally donated to the Foundation, and it is the Foundation's policy to obtain appraisals from qualified appraisers at the time of donation. Due to the prohibitive cost of obtaining periodic appraisals, the Foundation does not subsequently estimate the fair value of real estate and leasing operations if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment (see Note 4).

Expenditures for significant renovations, additions, renewals and betterments which extend the economic lives of the assets are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Interest is capitalized based on qualifying costs incurred during the construction period for construction periods expected to exceed one year. The Foundation uses specific identification, whereby interest on loans that were incurred for specific construction projects is capitalized. Capitalized interest cannot exceed gross interest expense. Upon completion of the project or the asset being placed into use, interest ceases to be capitalized.

Depreciation is recorded using the straight-line method based on the expected useful lives which is 30-39 years for buildings; 15-20 years for building improvements; the lesser of the useful life or the lease for leasehold improvements and 5-15 years for furniture and fixtures, equipment and software.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 1. Foundation and Significant Accounting Policies (Continued)

Prepaid expenses and other assets: Prepaid expenses and other assets consist of deferred leasing commissions (totaling \$1,565,217 net of accumulated amortization of \$1,038,188), deferred lease income (totaling \$1,654,075), prepaid expenses (totaling \$1,451,652), inventory (totaling \$702,366) and other assets (totaling \$559,097). Deferred leasing commissions are capitalized and amortized on a straight-line basis over the life of the related lease. Lease income is recognized on a straight-line basis and the deferred lease income (asset) will be recognized in the change in net assets in the period earned.

Beneficial interest in John L. Santikos Living Trust: The beneficial interest is carried at fair value which is based upon the estimated future cash flows (or fair value of assets to be distributed) from the trust. Fair value is estimated by management based on consideration of the assets and liabilities held in the trust (see Note 4). The JLS Trust was established by the donor to facilitate the transfer of his bequest to the Foundation. A significant portion of the bequest was transferred to Santikos Enterprises, LLC on December 31, 2015, with the remaining assets and liabilities transferred to the Foundation on December 31, 2017. The nominal amount remaining in the trust is maintained for the final accounting of the JLS Trust (see Note 4).

Beneficial interest in perpetual trusts: The Foundation is the beneficiary of three perpetual trusts held by third parties, which do not incorporate the provisions of the Plan. Under the terms of these trusts, the Foundation has the irrevocable right to receive the income (or a percentage of the income) generated by the trusts in perpetuity. The beneficial interest is recorded at fair value, which generally is based on the fair market value of the underlying assets held in the trust as provided by the trustee. Management evaluates the fair values provided by the trustees and, when deemed appropriate, adjusts to the trustees' fair values (see Note 4).

Headquarters and equipment: Headquarters and equipment are recorded net of accumulated depreciation at cost, or, if donated, estimated fair market value at the date of donation. Depreciation is recorded using the straight-line method based on the expected useful lives ranging from 5-15 years for furniture and fixtures, 3-5 years for equipment, and 5-10 years for software, and the lesser of the useful life or lease term for leasehold improvements (see Note 7).

Goodwill: Goodwill represents the excess of fair market value over total equity based on management's valuation in accordance with the *FASB Accounting Standards Codification (ASC)*, Intangibles—Goodwill and Other. Impairment analysis will be performed when a triggering event occurs. Enterprises did not recognize any impairment loss related to goodwill during the year ended December 31, 2017.

Collections: The Foundation does not include either the cost or the value of its collections in the consolidated statement of financial position, nor does it recognize gifts of collection items as revenues. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired and proceeds from deaccessions or insurance recoveries are reflected as increases in unrestricted net assets (see Note 8).

Accounts payable and accrued expenses: The Foundation records accounts payable and accrued expenses at cost. At December 31, 2017, accounts payable and accrued expenses are primarily comprised of accounts payable and accrued expense of \$15,525,317, and accrued payroll and accrued vacation and related payroll taxes and withholdings of \$1,353,556. Accounts payable and accrued expenses also includes deferred revenue, including prepaid rent, of \$3,832,182. Deferred revenue is recognized in the period earned.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 1. Foundation and Significant Accounting Policies (Continued)

Grants and scholarships payable, net: Grants and scholarships payable represent unconditional amounts awarded, but not yet paid, to various not-for-profit organizations to assist with funding of general operations or special programs and scholarships payable to (or for the benefit of) students. Grants and scholarships to be paid after one year are discounted to net present value. Grants and scholarships contingent upon the occurrence of a specified and uncertain event are not recognized until the conditions on which they depend are substantially met (see Note 9).

Charitable gift annuities payable: Charitable gift annuities payable represents amounts due to annuitants under agreements with the Foundation. Assets received are available for immediate use by the Foundation, and annual benefits are paid from Foundation assets and distributed to third-party beneficiaries over the term of the agreement. The liability is established based on life expectancy assumptions and the present value of the payments to be made. The liability is recalculated annually using the historical discount rate (see Note 6) based on changes in life expectancy and payments made.

Other liabilities: Other liabilities are long-term obligations and are recorded at cost. At December 31, 2017, other liabilities include tenant deposits of \$636,039, settlement obligation of \$602,112 and deferred rental expense of \$245,585. The settlement obligation is the result of an agreement between the Office of the Attorney General of the State of Texas and one of the supporting organizations. The agreement settled all claims and demands concerning the supporting organization and the obligation is reduced through expenditures (payments) dedicated to furthering the health and well-being of Texans, through support of charitable causes, programs and other community benefits that continue the mission of the supporting organization.

Long-term debt: Direct costs incurred in connection with obtaining the notes payable are capitalized and amortized over the term of the related indebtedness. As of December 31, 2017, deferred financing costs netted against long-term debt totaled \$1,553,533, which are recorded net of accumulated amortization of \$56,212. For 2017, the deferred financing costs amortized to interest totaled \$108,813 (see Note 10).

Charitable funds held for the benefit of other organizations: The Foundation follows the ASC Topic 958, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others. This guidance requires the Foundation to account for assets that are received from a not-for-profit organization for the benefit of that not-for-profit organization, or one of its supporting organizations, as a liability to the specified beneficiary concurrent with its recognition of the assets received. The Foundation maintains variance power and legal ownership over these funds. All asset transfers of this type, and the activity associated with those assets, are recognized as agency transactions (i.e., an increase/decrease in the respective asset category and the charitable funds held for the benefit of other organizations liability). Assets and liabilities related to such funds totaled \$17,102,858 at December 31, 2017.

In addition, the Foundation has obligations totaling \$479,780 to other not-for-profit organizations which results from charitable gift annuities in which the annuitant (donor) did not acknowledge variance power in the gift instrument and specified an unaffiliated organization as the charitable beneficiary.

Functional allocation of expenses: The cost of providing various programs and activities has been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs including bank and credit card fees, payroll benefits, depreciation, rent and occupancy have been allocated among the programs and supporting services benefited.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 1. Foundation and Significant Accounting Policies (Continued)

Tax-exempt status: The Foundation and its supporting organizations are not-for-profit organizations and are exempt from federal income tax, except on unrelated business income, under Section 501(c)(3) of the Code and have been determined not to be private foundations under Section 509(a) of the Code.

ASC Topic 740 provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Foundation's tax return to determine whether the tax positions are more-likely-than-not of being sustained when challenged or when examined by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax asset or liability in the current year. Management has determined that there are no material uncertain tax positions.

Impairment of long-lived assets: The Foundation reviews long-lived assets including investments in real estate and leasing operations and headquarters and equipment for impairment whenever events and changes in circumstances indicate that the carrying value of the asset may not otherwise be recoverable. In connection with this review, the Foundation also re-evaluates applicable periods of depreciation and amortization for these assets. The Foundation assesses the recoverability by determining whether the net book value of the related asset will be recovered through the projected undiscounted future cash flows of the asset. If the Foundation determines that the carrying value of the asset may not be recovered, it measures any impairment based on the asset's fair value as compared to the asset's carrying value. Once impairment is recognized the asset will not be written back to cost, even if the asset or investment subsequently increases in fair value. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition and other economic factors (see Note 19).

Contingencies: Certain conditions may exist at the date the consolidated financial statements are issued. These could result in a loss to the Foundation, but will only be determinable when one or more future events occur or fail to occur. The Foundation's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Foundation or unasserted claims that may result in such proceedings, the Foundation's legal counsel and management evaluate the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability is accrued on the Foundation's consolidated financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, is disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case, the guarantees would be disclosed. At December 31, 2017, management has not identified nor recorded any material loss contingencies.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 1. Foundation and Significant Accounting Policies (Continued)

Recent accounting pronouncements issued: In June 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of ASC Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU No. 2018-08 will be effective for the Foundation beginning on January 1, 2019 for contributions received and January 1, 2020 for contributions made. ASU No. 2018-08 should be applied on a modified prospective basis. Retrospective application is permitted.

On August 28, 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The amendments refine and expand hedge accounting for both financial (e.g., interest rate) and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. It also makes certain targeted improvements to simplify the application of hedge accounting guidance. ASU No. 2017-12 is effective for the Foundation's year ending December 31, 2020. Earlier application is permitted.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The ASU simplifies the measurement of goodwill impairment by eliminating the requirement that an entity compute the implied fair value of goodwill based on the fair values of its assets and liabilities to measure impairment. Instead, goodwill impairment will be measured as the difference between the fair value of the reporting unit and the carrying value of the reporting unit. The ASU also clarifies the treatment of the income tax effect of tax deductible goodwill when measuring goodwill impairment loss. ASU No. 2017-04 will be effective for the Foundation beginning on January 1, 2022. ASU No. 2017-04 must be applied prospectively with early adoption permitted.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU No. 2016-18 will be effective for the Foundation beginning on January 1, 2019. ASU No. 2016-18 must be applied using a retrospective transition method with early adoption permitted.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)*. ASU No. 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU No. 2016-15 will be effective for the Foundation on January 1, 2019.

On August 18, 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this update change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors and other users. These amendments include qualitative and quantitative requirements in the following areas: (1) net asset classes, (2) investment return, (3) expenses, (4) liquidity and availability of resources and (5) presentation of operating cash flows. ASU No. 2016-14 is effective for the Foundation's year ending December 31, 2018. Earlier application is permitted.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 1. Foundation and Significant Accounting Policies (Continued)

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The amendments in this update affect any entity that enters into a lease transaction. The primary change from this guidance is that the lessee should recognize the assets and liabilities that arise from all leases over 12 months in length. If the lease is 12 months or less in length, a lessee is permitted to make an accounting policy election by class of the underlying asset not to recognize lease assets and liabilities. If this election is made, the lessee should recognize the lease expense on a straight line basis over the lease term. ASU No. 2016-02 is effective for the Foundation's year ending December 31, 2021. Earlier application is permitted.

On January 5, 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, the final standard on the recognition and measurement of financial instruments. The ASU applies to all entities that hold financial assets or owe financial liabilities and represent the finalization of just one component of the FASB's broader financial instruments project. ASU No. 2016-01 is effective for the Foundation's year ending December 31, 2020. Earlier application is permitted.

On May 28, 2014, the FASB issued ASU No. 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 update 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 No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for the Foundation's year ending December 31, 2019. Early adoption is permitted.

The Foundation is currently evaluating the effect the above implementations will have on the consolidated financial statements.

Note 2. Contributions Receivable, Net

Unconditional contributions receivable, including amounts due under pledge and grant agreements, at December 31, 2017, are expected to be collected as follows:

Contributions receivable in:

Less than one year	\$ 1,298,204
One year to five years	2,848,000
Over five years	250,000
	<u>4,396,204</u>
Less unamortized discount (4%)	360,454
	<u><u>\$ 4,035,750</u></u>

No amounts have been recognized in the consolidated financial statements for conditional promises to give because the conditions on which they depend have not been substantially met. Conditional promises to give total \$5,006,752 at December 31, 2017, and are conditional upon the achievement of specified targets and milestones as specified in the respective grant agreements. The Foundation is also aware of additional naming in estate plans and wills; however, the Foundation does not currently have sufficient information to estimate these intentions to give.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 3. Notes Receivable

The Foundation's notes receivable at December 31, 2017, consist of the following:

Note receivable with fixed interest at 8.0%; maturing March 1, 2028, with principal and interest payments of \$881 due monthly; collateralized by real estate	\$ 73,359
Five notes receivable with fixed interest ranging from 8.5% to 12.5%, maturing between April 2, 2019 and January 1, 2029, with principal and interest payments due monthly. The notes are collateralized by real estate.	85,704
Note receivable with interest at 0.0%; maturing December 31, 2026; with principal payments of \$20,000 due annually over a period of 10 years	200,000
Note receivable with fixed interest at 9.0%; maturing November 1, 2018, interest due quarterly and principal due at maturity; secured by a vendor's lien and superior title retained in lender real estate deed	417,500
Note receivable with fixed interest at 6.0%; maturing based on future cash flow, interest due quarterly and principal due based on future cash flow	182,753
Total	<u>\$ 959,316</u>

The following is a summary of loans receivable by contractual maturity at December 31, 2017:

Due in less than one year	\$ 454,662
Due in one year and less than five years	163,326
Due in five years or more	341,328
	<u>\$ 959,316</u>

The Foundation has not recorded an allowance for loan losses, as it believes all notes receivable to be fully collectible.

Note 4. Fair Value Measurements and Disclosures

The Foundation's Investment Committee, appointed by the Board, is responsible for the overall management of the Foundation's investments in cash equivalent funds and securities (excluding investments in cash equivalent funds and securities held in trusts under the Plan), including the hiring and termination of investment managers, investment consultant(s), custodian banks and securities lending agents. The Foundation's investment consultants are responsible for sourcing, evaluating and selecting investments for recommendation to the Foundation's Investment Committee. The Foundation's investment department is responsible for the day-to-day operations involving due diligence and other testing procedures in regards to reviewing the reasonableness of fair value for all investments, which includes evaluating the accuracy and adequacy of information provided by custodians, brokers and managers. The valuation process for investments in cash equivalent funds and securities is the responsibility of the Foundation's investment department and all other fair value measurements are the responsibility of the Foundation's accounting department. Fair value measurements for investments in limited liability companies and partnerships, investments in oil and gas interests, beneficial interests in the JLS Trust and perpetual trusts are prepared by the Foundation's accounting department and approved by the Board during its review and approval of the Foundation's periodic internal financial statements.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements and Disclosures (Continued)

Fair value measurements: The Foundation follows ASC Topic 820, Fair Value Measurements, which provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy under Topic 820 are described as follows:

Level 1: Inputs are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs are quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from, or corroborated by, observable market data by correlation to other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. All transfers between fair value hierarchy levels are recognized by the Foundation at the beginning of each reporting period.

Financial assets and liabilities carried at fair value on a recurring basis include investments in cash equivalent funds and securities, investments in limited liability companies and partnerships, investments in oil and gas interests, beneficial interest in the JLS Trust, beneficial interest in perpetual trusts, interest rate swaps and charitable funds held for the benefit of others.

The methods and assumptions used to estimate the fair value of assets and liabilities in the financial statements, including a description of the methodologies used for the classification within the fair value hierarchy, are as follows.

Contributions receivable, net: Fair value is the price a market participant would pay to acquire the right to receive the cash flows inherent in the promise to pay and, due to inclusion of a discount to net present value and allowance for uncollectible accounts, the carrying value approximates fair value.

Investments in cash equivalent funds and securities: All of the Foundation's marketable securities are valued by nationally recognized third-party pricing services. The Foundation gives highest priority to quoted prices in active markets for identical assets accessed at the measurement date. An active market for the asset is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis and the Foundation classifies all such assets as Level 1. The Foundation gives a Level 2 priority to valuation prices where the valuation process involves inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly, using the market approach. Level 2 inputs under the market approach include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there is not sufficient activity, and/or where price quotations vary substantially either over time or among market makers, or in which little information is released publicly. In certain cases, where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements and Disclosures (Continued)

Direct lending funds, common funds and other alternative investments are carried at fair value, which is based on the NAV per share, as provided by the fund manager and/or adjusted by the Foundation. The Foundation uses management agreements, analyst notes, audited financial statements, and underlying investment holdings to evaluate the fund manager's valuation methodology (i.e., in determining whether the fund manager follows ASC Topic 820) and considers various other factors including contributions and withdrawals to the fund and monitoring unaudited interim reporting to determine if any adjustment to the NAV is necessary.

Investments in limited liability companies and partnerships: Fair value of limited liability companies and partnerships are determined by the Foundation using either the income approach (discounted cash flows) or the market approach. In some cases, independent appraisals are obtained and then discounted by the Foundation to fair value for lack of marketability, minority interest and/or market risk and in certain circumstances, fair values are based on comparison to similar assets at the measurement date and/or identical assets as of a different measurement date. Due to the significant unobservable inputs required to estimate the fair value of these interests, the Foundation's investments in limited liability companies and partnerships are all classified as Level 3 within the hierarchy. Investments in this category are generally illiquid and non-redeemable except in certain circumstances. Investments in this category have unfunded commitments totaling \$15,000,000 at December 31, 2017.

Investments in oil and gas interests: Fair value of oil and gas interests are determined by the Foundation's management using a cash flow model (income approach) and consideration of other factors deemed relevant in the circumstances. Due to the significant unobservable inputs required to estimate the fair value of these investments, the Foundation's investments in oil and gas interests are classified as Level 3 in the hierarchy.

Investments in real estate, leasing and theater operations, net: As a result of recent market comparisons, the Foundation believes the fair value is not materially different from the fair value at the time of donation or purchase (see Note 5).

Beneficial interests in the JLS Trust: The majority of the remaining assets held in a trust for the beneficial interest are cash and cash equivalents. Management determined the fair value of the beneficial interest using the market approach. Due to the significant unobservable inputs required to estimate the underlying assets fair values, the Foundation's beneficial interest is classified as Level 3 in the hierarchy.

Beneficial interests in perpetual trusts: Fair value measurement (unit of account) is based in the interest of the trust for each individual beneficial interest as determined by third-party trustees, except for oil and gas interests which are determined by management using a cash flow model (income approach). Due to the significant unobservable inputs required to estimate the fair value of the underlying assets, the Foundation's beneficial interest is classified as Level 3 in the hierarchy.

Interest rate swaps: Derivative instruments are classified within Level 2 of the valuation hierarchy. The Foundation obtains fair value measurements for derivative instruments from reputable pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the United States Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, the bond's terms and conditions and other such data.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements and Disclosures (Continued)

Charitable funds held for the benefit of other organizations: The liability's fair value is determined using identical or similar liabilities in the market. Fair value is based on the fair value of the investment assets held by the Foundation for the benefit of the recipient agencies. The specific assets held for the benefit of the other organizations have been classified as Level 1 within the hierarchy for investments in cash equivalent funds and securities (as discussed above).

The following table represents assets and liabilities measured at fair value on a recurring basis, as reported in the consolidated statement of financial position at December 31, 2017, and by level within the fair value measurement hierarchy. The Foundation has no assets or liabilities carried at fair value on a nonrecurring basis at December 31, 2017.

	Total	Level 1	Level 2	Level 3
Assets:				
Investments in cash equivalent funds and securities:				
Cash and cash equivalents	\$ 35,658,428	\$ 34,695,468	\$ 962,960	\$ -
Certificates of deposit	730,359	-	730,359	-
Common stock	42,347,611	42,347,611	-	-
Corporate securities—preferred	401,751	401,751	-	-
Mutual funds	106,978,763	106,978,763	-	-
Corporate obligations	4,453,365	3,347,361	1,106,004	-
U.S. government agency obligations	1,899,577	1,899,577	-	-
Mortgage backed securities	887,297	-	887,297	-
Real estate investment trusts	753,202	753,202	-	-
Investments held at NAV*	108,194,910	-	-	-
Total investments in cash equivalent funds and securities	302,305,263	190,423,733	3,686,620	-
Investments in limited liability companies and partnerships	33,089,208	-	-	33,089,208
Investments in oil and gas interests	7,648,550	-	-	7,648,550
Real estate, leasing and theater operations, net	361,829,314	-	-	-
Total investments	704,872,335	190,423,733	3,686,620	40,737,758
Beneficial interest in JLS Living Trust	2,564,566	-	-	2,564,566
Beneficial interest in perpetual trusts	34,521,470	-	-	34,521,470
Interest rate swaps	725,931	-	725,931	-
	<u>\$ 742,684,302</u>	<u>\$ 190,423,733</u>	<u>\$ 4,412,551</u>	<u>\$ 77,823,794</u>
Liabilities:				
Charitable funds held for the benefit of other organizations	\$ 17,582,638	\$ 17,582,638	\$ -	\$ -

* In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements and Disclosures (Continued)

The following table summarizes the valuation techniques and significant unobservable inputs used for the Foundation's assets and liabilities that are categorized within Level 3 of the fair value hierarchy:

Financial Instruments Type	Fair Value	Valuation Techniques	Unobservable Input (c)	Range of Inputs (Weighted Average)
Assets:				
Investments in limited liability companies and partnerships	\$ 7,901,603	Discounted cash flows	Market comparables	N/A
			Discount for lack of marketability (a)	10%-15% (12.82%)
			Discount for lack of control (a)	
	25,187,605	Market approach	Market comparables	N/A
Investment in oil and gas interests	7,648,550	Discounted cash flows	Revenue multiple (b)	8.6 (9.6)
			Market risk discount (a)	0% (0%)
Beneficial interest in JLS Trust	2,564,566	Market approach	Market comparables	N/A
Beneficial interest in perpetual trusts	34,521,470	Market approach	Discount rate (a)	N/A
			Revenue multiple (b)	8.6 (8.6)
		Discounted cash flows	Expected rate of return (d)	0% (0%)

- (a) Represents amounts used when the Foundation has determined that market participants would take into account these discounts when pricing the asset or liability.
- (b) Represents amounts used when the Foundation has determined that market participants would use such multiples when pricing the investment.
- (c) Significant increases or decreases in any of the above unobservable inputs in isolation may result in a significantly lower or higher fair value measurement.
- (d) Represents the respective charitable organization's beneficial interest in the Foundation's investment pools (i.e., the underlying assets which are measured at fair value). The unobservable inputs for the charitable organization liability are the same as those for the Foundation's investment pools disclosed throughout Note 4.

The changes in investments measured at fair value for which the Foundation has used Level 3 inputs to determine fair value are as follows:

Fair value at January 1, 2017	\$ 325,028,895
Purchases	13,119,391
Transfers in/(out)	(265,424,531)
Change in fair value	5,100,039
Fair value at December 31, 2017	<u>\$ 77,823,794</u>

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements and Disclosures (Continued)

The Foundation's investments in certain entities that calculate fair value using net asset value per share or its equivalent include the following at December 31, 2017:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments in cash equivalent funds and securities:				
Direct lending (a)	\$ 15,364,260	\$ 7,104,508	Quarterly, Illiquid	90 days, N/A
Global Macro (b)	1,829,909	-	Daily, Monthly	2-60 days
Hedged value funds (c)	5,942,614	-	Monthly, Annually	15 days annually
Strategic equity funds (d)	1,298,665	-	Monthly	15 days
Strategic income funds (e)	1,700,052	-	Quarterly	90 days
Domestic mid/large cap funds (f)	2,220,528	-	Daily	Daily
Domestic small cap funds (g)	415,230	-	Daily	Daily
Taxable fixed income funds (h)	16,550,118	-	Daily, Monthly	Daily, 30 days
International and emerging market equity funds (i)	62,873,534	-	Daily, Monthly	Daily, 30 days
	<u>\$ 108,194,910</u>	<u>\$ 7,104,508</u>		

- (a) Investments of privately negotiated high-yielding senior debt, subordinated debt, and preferred equity investments in franchised business in the United States. These investments are generally not redeemable. The Foundation invests in one fund totaling \$919,967, which allows for quarterly redemptions with 90 days' notice. Investments in all other funds do not provide for redemption until dissolution of the fund which is expected to occur between three to six years. Distributions are received through liquidation of the underlying assets of the fund.
- (b) The Global Macro strategy is a hedge fund strategy that is basing its holdings, such as long and short positions in various equity, fixed income, currency, commodities and futures markets, primarily on the overall economic and political views of various countries, or their macroeconomic principles. The Foundation invests in one fund totaling \$630,136, which allows for daily redemptions with 60 days' notice. All remaining investments in funds are redeemable monthly.
- (c) Investments in strategies where managers seek to profit from price disparities between two or more instruments with identical or similar characteristics. The strategies generally are event driven whereby managers seek to capitalize on price movements caused by anticipated corporate events or fixed income and convertible arbitrage whereby managers seek to capitalize on pricing inefficiencies of the embedded option in a convertible bond.
- (d) Strategic equity funds have a domestic equity strategy that builds a portfolio of stocks selected based on certain indexes including Russell 3000 Total Return Index.
- (e) Investment in a Strategic Income fund strategy that seeks opportunities in yield-oriented commitments to both high quality and other asset classes.
- (f) Investment strategy focuses on pooling equity investments primarily based in the United States for mid to large capitalization companies, which are either categorized as growth companies offering strong earnings potential, or companies which are considered by managers to be undervalued by the market, and provide strong value prospects.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements and Disclosures (Continued)

- (g) Investment strategy focuses on pooling equity investments primarily based in the United States for small capitalization companies, which are either categorized as growth companies offering strong earnings potential, or companies which are considered by managers to be undervalued by the market, and provide strong value prospects.
- (h) Invests to achieve income consistency through investment in income producing investment grade debt securities.
- (i) Investment strategy that incorporates the pooled assets of small trusts focusing on investment in equity assets in international and emerging markets.

Note 5. Investments in Real Estate, Leasing and Theater Operations

The Foundation's investments in real estate, leasing and theater operations at December 31, 2017, consist of the following:

Land and land improvements	\$ 92,473,529
Buildings and building improvements	202,879,182
Leasehold and tenant improvements	26,647,857
Furniture, fixtures and equipment	18,170,791
Construction in progress	3,308,721
	<hr/>
	343,480,080
Less accumulated depreciation and amortization	14,299,462
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	329,180,618
Land held for sale	32,648,696
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Investment in real estate and leasing operations, net	<u>\$ 361,829,314</u>

Investments in real estate, leasing and theater operations with a net book value of \$328,453,703 are held in various real estate entities which are wholly owned by the Santikos Foundation. These real estate entities hold theater, raw land and operate retail and mixed-use centers involved in commercial real estate leasing and operations.

In order to maximize the Foundation's earnings and grow the assets available for distribution over time, the Foundation determined that raw land held by the Foundation, with a carrying value of \$32,648,696 should be sold and the proceeds used to purchase additional investments.

Future minimum lease income under noncancelable operating leases at December 31, 2017, is as follows:

Years ending December 31:	
2018	\$ 9,676,578
2019	9,435,453
2020	8,893,020
2021	8,070,814
2022	5,789,026
Thereafter	18,408,924
	<hr/>
	<u>\$ 60,273,815</u>

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 6. Split-Interest Agreements

Charitable gift annuities: At December 31, 2017, the Foundation has recorded \$882,000 in fair value of charitable gift annuities as an asset (i.e., investment in cash equivalent funds and securities) in its consolidated statement of financial position. Assets received under these agreements are recorded at fair value and in the appropriate net asset category. Liabilities have been established for which the Foundation is obligated to an annuitant under a charitable gift annuity. The discount rates used in the calculations range from 1.2 percent to 2.2 percent. These liabilities totaled \$135,365 at December 31, 2017.

Beneficial interest in perpetual trusts: The Foundation is the beneficiary of three perpetual trusts, not created under the Plan, and for which the Foundation is not the trustee. The Foundation's interests in these trusts range from 20 percent to 100 percent. The Foundation relies on the fair market values provided by the trustees, except for holdings in oil and gas interests which are not reported at fair value by trustees. Foundation management estimated the fair market value of the oil and gas interests (held in two trusts) using the same methodology that it uses for its other oil and gas interests (see Note 4).

Intentions to give: The Foundation is also the revocable beneficiary of charitable remainder unitrusts in which it does not serve as the trustee. The terms of the various trust agreements currently allow the grantors of the trusts to change the charitable beneficiary. Due to the uncertainty as to whether or not the Foundation will be the ultimate beneficiary of these trusts, their values are not reflected in the consolidated financial statements until such time as the charitable beneficiary is irrevocable.

Note 7. Headquarters and Equipment

Headquarters and equipment at December 31, 2017, consist of the following:

Leasehold and tenant improvements	\$ 1,195,376
Furniture and fixtures	252,640
Equipment	388,022
Software	1,013,651
	<hr/>
	2,849,689
Less accumulated depreciation	2,019,020
	<hr/>
Headquarters and equipment, net	<u>\$ 830,669</u>

Note 8. Collections

The Foundation maintains various collections of works of art, historical treasures and similar assets. These collections are maintained for public exhibition, education and research in furtherance of public service rather than for financial gain. Substantially all of these assets are protected, kept unencumbered, cared for, and preserved by a local art school. As a matter of policy, the proceeds of items in collections that are sold are used to acquire other items for collections.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 9. Grants and Scholarships Payable

Grants and scholarships at December 31, 2017, are expected to be paid as follows:

Years ending December 31:	
2018	\$ 8,242,692
2019	2,077,733
2020	1,398,320
2021	48,100
2022	3,300
	<hr/>
	11,770,145
Less unamortized discount (4%)	300,048
	<hr/>
	\$ 11,470,097
	<hr/>

Conditional grant commitments are recognized when the conditions on which they depend are substantially met. At December 31, 2017, the Foundation has conditional grant commitments of \$5,470,385. The commitments are contingent upon the achievement of milestones and targeted outcomes as outlined in the grant agreements.

Note 10. Long-Term Debt

Long-term debt at December 31, 2017, consists of the following:

Note payable to a financial institution; collateralized by rents, land and buildings; bearing interest at LIBOR plus 3.250%; monthly principal payments of \$9,747 plus interest, with a final balloon payment due at maturity in March 2019; guaranteed by Cap Co. limited to 25.000% of outstanding principal balance plus unpaid interest	\$ 8,753,431
Note payable to a financial institution; collateralized by rents, land and buildings; bearing interest at LIBOR plus 2.250%; monthly payments of principal totaling \$19,781 plus interest through maturity in May 2019; plus balloon payment; guaranteed by Cap Co. limited to 25.000% of outstanding principal balance plus unpaid interest	16,982,192
Note payable to a financial institution; collateralized by land, buildings and leases; bearing interest at LIBOR plus 2.450%; monthly principal payments of \$21,500 plus interest, with a final balloon payment due at maturity in July 2019; guaranteed by Cap Co. limited to 50.000% of outstanding principal balance plus unpaid interest	3,140,000
Note payable to a financial institution; collateralized by land, buildings, and leases; bearing interest at LIBOR plus 2.450%; monthly principal payments of \$4,479 plus interest, with a final balloon payment due at maturity in June 2020; guaranteed by Cap Co. limited to 50.000% of outstanding principal balance plus unpaid interest	945,104
Note payable to a financial institution; collateralized by land, buildings, fixtures and leases; bearing interest at 4.125%; monthly payments of principal and interest totaling \$18,542 through maturity in May 2032; guaranteed by Cap Co. limited to 20.000% of the outstanding principal balance	2,406,428
Note payable to a financial institution; collateralized by land, buildings, fixtures and leases; bearing interest at 4.250%; monthly payments of principal and interest totaling \$53,525 through maturity in June 2035	7,884,340
Notes payable to financial institutions; collateralized by land and buildings; bearing interest at LIBOR plus applicable margin (2.900%, 3.350% or 3.800%, based on debt service coverage ratio); monthly principal payments of \$200,000 plus interest with a final balloon payment due at maturity in December 2024; guaranteed by Santikos Theaters, Inc.	48,000,000
Unsecured note payable to individual; with no interest; quarterly principal payments of \$6,000 through maturity in March 2025	172,011
	<hr/>
	88,283,506
Less deferred financing cost, net of accumulated amortization of \$56,212	1,050,942
Total long-term debt	<hr/>
	\$ 87,232,564
	<hr/>

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 10. Long-Term Debt (Continued)

Principal payments required on long-term debt at December 31, 2017, are as follows:

Years ending December 31:	
2018	\$ 3,540,081
2019	31,179,166
2020	3,733,900
2021	2,917,671
2022	2,939,096
Thereafter	43,973,592
	<u>\$ 88,283,506</u>

The notes payable with financial institutions have financial loan covenants that require, among other things, maintenance of unrestricted cash, restrictions on distributions paid and other financial ratios. At December 31, 2017, cash and cash equivalents includes restricted cash of \$574,816.

At December 31, 2017, Enterprises entered into a \$78,000,000 syndicated term loan to refinance existing theater real property debt of \$48,000,000, with \$30,000,000 available on the term loan. The term loan agreement includes an additional \$30,000,000 that is available for the purpose of funding the acquisition of real property that is developed as a movie theater or with the intent to operate or develop such real property as a movie theater. There are conditions that must be met for the incremental commitment to be funded. At the same time, Enterprises entered into a \$25,000,000 syndicated revolving line of credit. At December 31, 2017, no amounts had been drawn on the line of credit.

Note 11. Leases

The Foundation has three separate leases for office space, summarized as follows:

Foundation headquarters: The lease commenced in November 2012 with a term of 120 months. The monthly lease payment begins at \$29,858 and increases every 12 months to a maximum of \$36,412.

Supporting organization headquarters: The lease commenced in February 2017 for 60 months with monthly payments of \$1,200.

Santikos Enterprises, LLC: Enterprises leases one of its theater buildings under a noncancelable operating agreement with an unrelated party through 2024. In addition, Enterprises leases other equipment under noncancelable operating leases through 2020 and a corporate office through 2025.

Future minimum lease payments under these noncancelable operating leases at December 31, 2017, are as follows:

Years ending December 31:	
2018	\$ 934,422
2019	1,168,278
2020	1,185,124
2021	1,105,378
2022	1,093,952
Thereafter	4,860,711
	<u>\$ 10,347,865</u>

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 12. Total Net Asset Composition

In addition to endowment funds, the Foundation also manages other non-endowed funds. The Foundation's total net asset composition is summarized as follows at December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 475,905	\$ 557,093,054	\$ 16,300,523	\$ 573,869,482
Non-endowed funds:				
Corporate advised	1,612,246	2,139,012	-	3,751,258
Designated	7,306,785	961,372	-	8,268,157
Donor advised	84,299,523	38,860	-	84,338,383
Field of interest	22,662,308	1,849,877	-	24,512,185
Good Samaritan	13,109	-	-	13,109
Operating	1,603,698	-	-	1,603,698
Scholarship	7,185,570	883,990	-	8,069,560
Supporting organization	61,267,024	1,485,534	-	62,752,558
Undesignated	10,160,226	-	-	10,160,226
Total non-endowed funds	196,110,489	7,358,645	-	203,469,134
Beneficial interest in JLS Living Trust	-	2,564,566	-	2,564,566
Beneficial interest in perpetual trusts	-	-	34,521,470	34,521,470
	<u>\$ 196,586,394</u>	<u>\$ 567,016,265</u>	<u>\$ 50,821,993</u>	<u>\$ 814,424,652</u>

The Foundation incurred expenses that satisfied the restricted purposes of net assets totaling \$18,293,622 for the Foundation and \$18,819,813 for Enterprises for the year ended December 31, 2017. Net assets were released from donor restriction by incurring expenses satisfying the purpose or time restrictions specified by donors.

Note 13. Endowments

The Foundation's endowment consists of funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation has no board-designated endowment funds at December 31, 2017.

As of December 31, 2017, the endowment net assets composition by type is comprised of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Designated	\$ (20,467)	\$ 26,721,986	\$ 3,435,986	\$ 30,137,505
Donor advised	-	4,213,738	-	4,213,738
Field of interest	496,745	485,223,882	562,071	486,282,698
Scholarship	(373)	29,343,045	10,759,885	40,102,557
Supporting organization	-	10,273,137	1,542,581	11,815,718
Undesignated	-	1,317,266	-	1,317,266
Total donor-restricted endowment funds	<u>\$ 475,905</u>	<u>\$ 557,093,054</u>	<u>\$ 16,300,523</u>	<u>\$ 573,869,482</u>

In addition to net assets resulting from cash equivalent funds and securities, the Foundation's endowment is also comprised of Enterprises net assets (as the donor's gift is restricted for endowment).

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 13. Endowments (Continued)

The organization had the following changes in endowment net assets as of December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at January 1, 2017	\$ (280,734)	\$ 273,777,854	\$ 16,300,523	\$ 289,797,643
Net contributions from JLS Trust	-	252,143,214	-	252,143,214
Contributions	-	263,092	-	263,092
Net investment earnings	786,247	13,871,456	-	14,657,703
Transfer to temporarily restricted and appropriations	(29,608)	17,037,438	-	17,007,830
Endowment net assets at December 31, 2017	<u>\$ 475,905</u>	<u>\$ 557,093,054</u>	<u>\$ 16,300,523</u>	<u>\$ 573,869,482</u>

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the historic gift value. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets and totaled \$72,755 at December 31, 2017. These deficiencies resulted from unfavorable market fluctuations.

Return objectives and risk parameters: The investment objective is to obtain a total rate of return that exceeds the anticipated impact of inflation on the consumer price index, plus all annual investment, administration, and charitable expenditures.

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

Endowment investment and spending policies: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The investment policy has established an achievable return objective through diversification of investment assets.

Spending policy and how the investment objectives relate to spending policy: The spending policy calculates the amount of money annually appropriated for spending from the Foundation's various endowment funds. The current spending policy is to appropriate an amount equal to 3.75 percent of a moving 12-quarter average through the end of the third quarter preceding the fiscal year in which the distribution is planned for all types of funds. The Foundation reviews its endowment spending policy annually and considers the long-term expected return on the endowment, the anticipated rate of inflation, and the funds' specific expenses.

Trusts held by third-party trustees created under the Plan and held in the Foundation's endowment are subject to the Foundation's endowment spending policies, but are not subject to the Foundation's endowment investment policies.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 14. Retirement Plans

The Foundation has adopted a Simplified Employee Pension Plan. All full-time employees of the Foundation, excluding employees of Enterprises and one supporting organization, are eligible beneficiaries following their initial date of employment. The percentage contributed by the Foundation is set annually and may range from 0 percent to 25 percent of an employee's gross wages. Contributions are immediately fully vested.

The Foundation has adopted the San Antonio Area Foundation 403(b) Plan (the Retirement Plan). Eligible employees may make voluntary contributions to the Retirement Plan, subject to Internal Revenue Service limitations. All Foundation employees, excluding employees of Enterprises and one supporting organization, may participate in the Retirement Plan. The Foundation does not make contributions to this Retirement Plan. Benefits paid under the Retirement Plan are limited to the sum of the employee's contributions and investment earnings on those contributions.

Enterprises established a 401(k) plan for all of its (and its consolidated entities') eligible employees. All employees age 21 or older who have completed six months of service are eligible to participate. Eligible employees may contribute a percentage of their annual compensation limited to a maximum amount as set by the Internal Revenue Service (IRS). Enterprises will match 50 percent of the employee's elective contributions up to six percent. During 2017, Enterprises elected to make a safe harbor nonelective contribution on behalf of each eligible employee in an amount equal to three percent of the employees' annual compensation.

One supporting organization has established a 401(k) plan for its eligible employees. All employees age 21 or older who have completed six months of service and perform a minimum of 1,000 hours annually are eligible to participate. Eligible employees may contribute a percentage of their annual compensation limited to a maximum amount as set by the IRS. The supporting organization will match a percentage of the employee's elective contributions as determined by the supporting organization. The employee and employer contributions vest zero percent after one year of service, 50 percent after two years of service and 100 percent after three years of service.

Note 15. Concentrations of Credit Risk

The Foundation maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are generally guaranteed by the Federal Deposit Insurance Corporation up to \$250,000. The Foundation has not experienced any losses in such accounts. The Foundation also maintains accounts with multiple brokerage firms, which include industry-grade money market funds, mutual funds, equities, government obligations and other asset classes. Balances are insured up to \$500,000 (with a limit of \$250,000 for cash) by the Securities Investor Protection Corporation. At times, balances within these accounts may exceed the insured limits. Management believes that the Foundation is not exposed to any significant risk with respect to its cash and cash equivalents.

At December 31, 2017, net contributions receivable of 95 percent are due from three donors and net grants and scholarships payable of 34 percent are due to three grantees.

The Foundation's real estate operations (see Note 5) are subject to a number of risks and uncertainties due to its concentration in the real estate industry, including, but not limited to, the cyclical nature of real estate operations, governmental regulations, environmental considerations, competition, the availability of financing and the risk of natural disasters that may occur where the Foundation's real estate properties are located.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 15. Concentrations of Credit Risk (Continued)

Enterprises theater operations are subject to a number of risks and uncertainties due to its concentration in the movie theater industry, including, but not limited to, intense competition in attracting patrons, licensing motion pictures and low barriers to entry by national, regional and independent movie theaters.

Estimates that are particularly susceptible to significant change include the valuation of investments in cash equivalent funds and securities, investments in limited liability companies and partnerships, investments in oil and gas interests, beneficial interests in the JLS Trust and perpetual trusts and contributions receivable. The Foundation's investment instruments and beneficial interests are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with these financial instruments, it is reasonably possible that changes in the values of the investments and beneficial interests will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements. Significant fluctuations in fair value could occur from year to year, and the amounts the Foundation will ultimately realize could differ materially. Management's estimate of contributions receivable and the related allowance for uncollectible amounts is based on consideration of all relevant available information and an analysis of the collectibility of individual contributions, which arise primarily from pledges as well as trusts and estates, at the financial statement date.

Note 16. Derivative Obligations

Enterprises use derivatives for risk management purposes and does not use derivatives for speculative purposes. The outstanding notional amount of \$45,276,667 is associated with interest rate swaps that convert floating rate long-term debt to fixed-rate debt. The fair value of the interest rate swaps at December 31, 2017, was an asset totaling \$725,931 (see Note 4).

The change in fair value of the interest rate swaps is included in other interest expense and totaled \$479,375 for the year ended December 31, 2017.

Note 17. Contribution from the Foundation to Enterprises and Other Contributions

The following contribution from the Foundation to Enterprises is included as part of the consolidated statement of activities.

During 2017, Enterprises distributed \$512,969 to the Foundation. This amount has been eliminated from the consolidated statement of activities.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 17. Contribution from the Foundation to Enterprises and Other Contributions (Continued)

The following assets and liabilities of Santikos Theaters, Inc. and the theater real estate companies (collectively known as the Theater Entities) were transferred out of the JLS Trust at net book value to the Foundation on December 31, 2017. The assets and liabilities of the Theater Entities were then contributed by the Foundation to Enterprises at fair market value on December 31, 2017:

	Distribution by JLS Trust to the Foundation	Contribution From the Foundation to Enterprises
Current assets	\$ 53,995,753	\$ 53,995,753
Property and equipment, net	151,516,538	165,011,987
Goodwill (Note 18)	89,693,350	89,279,798
Other noncurrent assets	782,758	782,758
Total assets	<u>295,988,399</u>	<u>309,070,296</u>
Current liabilities	13,185,346	12,845,506
Noncurrent liabilities	44,150,204	44,150,204
Total liabilities	<u>57,335,550</u>	<u>56,995,710</u>
Net JLS Trust distributed	<u>\$ 238,652,849</u>	
Enterprises net assets contributed		<u>\$ 252,074,586</u>

The transfer of the Theater Entities from the JLS Trust to the Foundation as of December 31, 2017, resulted in a fair value adjustment of \$5,799,193 recorded as change in value of JLS Trust on the consolidated statement of activities. The assets and liabilities of the Theater Entities have been recorded at fair value by the Foundation. The Foundation has pushed down the fair value adjustments to the underlying Theater Entities' assets and liabilities held by Enterprises.

Note 18. Goodwill

During the year ended December 31, 2017, Enterprises sold certain Houston theater operations and applied push down accounting, which resulted in the following changes in goodwill:

Total goodwill at January 1, 2017	\$ 108,637,283
Goodwill basis sold in 2017	(18,943,933)
Pushdown accounting effect on goodwill	(413,552)
Total goodwill at December 31, 2017	<u>\$ 89,279,798</u>

Note 19. Impairment of Long-Lived Assets

During 2017, Enterprises evaluated the value of its land held for sale. Based on this evaluation, Enterprises determined that land held for sale with a carrying amount of \$32,648,696 was impaired and wrote it down by \$1,664,682 to its estimated fair value. The estimated fair value was based on comparable sales rates.

San Antonio Area Foundation

Notes to Consolidated Financial Statements

Note 20. Subsequent Events

In May 2018, Enterprises entered into a contract to build a new theater and family entertainment complex northeast of San Antonio. Construction has commenced and completion is planned for the third quarter 2019. Cost, including land, is projected to be approximately \$38,000,000.

Supplementary Information



RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
San Antonio Area Foundation

We have audited the consolidated financial statements of San Antonio Area Foundation (the Foundation) as of and for the year ended December 31, 2017, and have issued our report thereon, which contains an unmodified opinion on these consolidated financial statements (see page 1). Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

San Antonio, Texas
July 24, 2018

San Antonio Area Foundation

Consolidating Statement of Financial Position December 31, 2017

	San Antonio Area Foundation	Santikos Enterprises, LLC	Eliminations	Consolidated
Assets				
Cash and cash equivalents	\$ 23,855,505	\$ 80,607,723	\$ (32,961)	\$ 104,430,267
Receivables:				
Contributions, net	4,035,750	-	-	4,035,750
Notes receivable	959,316	-	-	959,316
Other, net	385,548	4,502,050	-	4,887,598
Total receivables	5,380,614	4,502,050	-	9,882,664
Investments:				
Cash equivalent funds and securities	302,305,263	-	-	302,305,263
Limited liability companies and partnerships	7,901,603	25,187,605	-	33,089,208
Oil and gas interests	7,648,550	-	-	7,648,550
Real estate, leasing and theater operations, net	726,915	361,102,399	-	361,829,314
Total investments	318,582,331	386,290,004	-	704,872,335
Prepaid expenses and other assets	209,981	5,723,426	(1,000)	5,932,407
Beneficial interest in John L. Santikos Living Trust	2,564,566	-	-	2,564,566
Beneficial interest in perpetual trusts	34,521,470	-	-	34,521,470
Interest rate swaps	-	725,931	-	725,931
Headquarters and equipment, net	830,669	-	-	830,669
Goodwill	-	89,279,798	-	89,279,798
Collections (Note 8)	-	-	-	-
Total assets	\$ 385,945,136	\$ 567,128,932	\$ (33,961)	\$ 953,040,107
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	\$ 901,376	\$ 19,843,640	\$ (33,961)	\$ 20,711,055
Grants and scholarships payable, net	11,470,097	-	-	11,470,097
Charitable gift annuities payable	135,365	-	-	135,365
Other liabilities	847,697	636,039	-	1,483,736
Long-term debt	172,011	87,060,553	-	87,232,564
Charitable funds held for the benefit of other organizations	17,582,638	-	-	17,582,638
Total liabilities	31,109,184	107,540,232	(33,961)	138,615,455
Net assets:				
Unrestricted:				
Designated for reserve fund	8,022,479	-	-	8,022,479
Donor advised and other designated funds	186,426,168	-	-	186,426,168
Undesignated funds	2,137,747	-	-	2,137,747
Member's equity in Santikos Enterprises, LLC	-	459,588,700	(459,588,700)	-
Total unrestricted net assets and member's equity	196,586,394	459,588,700	(459,588,700)	196,586,394
Temporarily restricted net assets	107,427,565	-	459,588,700	567,016,265
Permanently restricted net assets	50,821,993	-	-	50,821,993
Total net assets	354,835,952	459,588,700	-	814,424,652
Total liabilities and net assets	\$ 385,945,136	\$ 567,128,932	\$ (33,961)	\$ 953,040,107

San Antonio Area Foundation

Consolidating Statement of Activities Year Ended December 31, 2017

	San Antonio Area Foundation				Santikos Enterprises, LLC	Eliminations	Consolidated Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total			
Revenues and support:							
Foundation:							
Contributions and grants	\$ 31,588,847	\$ 4,840,064	\$ -	\$ 36,428,911	\$ -	\$ -	\$ 36,428,911
Investment income, net	5,743,619	1,760,505	-	7,504,124	-	(512,969)	6,991,155
Net realized and unrealized gains on investments	20,733,114	12,103,000	-	32,836,114	-	-	32,836,114
Mineral interest revenue, net	555,726	350,731	-	906,457	-	-	906,457
Change in value of perpetual trusts	-	-	9,736,221	9,736,221	-	-	9,736,221
Change in value of John L. Santikos Living Trust	-	5,799,193	-	5,799,193	-	-	5,799,193
Change in value of gift annuities	(198,378)	-	-	(198,378)	-	-	(198,378)
Program revenue	390,319	-	-	390,319	-	-	390,319
Administrative fees	2,967,621	(2,912,356)	-	55,265	-	-	55,265
Other income	106,687	17,651	-	124,338	-	-	124,338
Net assets released from restriction	18,293,622	(18,293,622)	-	-	-	-	-
	<u>80,181,177</u>	<u>3,665,166</u>	<u>9,736,221</u>	<u>93,582,564</u>	<u>-</u>	<u>(512,969)</u>	<u>93,069,595</u>
Enterprises:							
Rental income	-	-	-	-	14,189,126	-	14,189,126
Interest income	-	-	-	-	152,631	-	152,631
Investment income	-	-	-	-	578,986	-	578,986
Gain on sale of assets	-	-	-	-	4,337,991	-	4,337,991
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,258,734</u>	<u>-</u>	<u>19,258,734</u>
Total revenues and support	<u>80,181,177</u>	<u>3,665,166</u>	<u>9,736,221</u>	<u>93,582,564</u>	<u>19,258,734</u>	<u>(512,969)</u>	<u>112,328,329</u>

(Continued)

San Antonio Area Foundation

Consolidating Statement of Activities (Continued) Year Ended December 31, 2017

	San Antonio Area Foundation			Total	Santikos Enterprises, LLC	Eliminations	Consolidated Total
	Unrestricted	Temporarily Restricted	Permanently Restricted				
Expenses and distributions:							
Foundation:							
Grants and scholarships	\$ 42,632,783	\$ -	\$ -	\$ 42,632,783	\$ -	\$ -	\$ 42,632,783
Program services	3,963,281	-	-	3,963,281	-	-	3,963,281
Fundraising expense	811,734	-	-	811,734	-	-	811,734
General and administrative	5,590,023	-	-	5,590,023	-	-	5,590,023
	<u>52,997,821</u>	<u>-</u>	<u>-</u>	<u>52,997,821</u>	<u>-</u>	<u>-</u>	<u>52,997,821</u>
Enterprises:							
Other operating and administrative expenses	-	-	-	-	10,090,387	-	10,090,387
Depreciation and amortization	-	-	-	-	4,624,642	-	4,624,642
Interest expense	-	-	-	-	1,483,408	-	1,483,408
Impairment of long-lived assets	-	-	-	-	1,664,682	-	1,664,682
Other expenses	-	-	-	-	814,018	-	814,018
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,677,137</u>	<u>-</u>	<u>18,677,137</u>
Total expenses and distributions	<u>52,997,821</u>	<u>-</u>	<u>-</u>	<u>52,997,821</u>	<u>18,677,137</u>	<u>-</u>	<u>71,674,958</u>
Change in net assets	27,183,356	3,665,166	9,736,221	40,584,743	581,597	(512,969)	40,653,371
Net assets at beginning of year	169,403,038	355,836,985	41,085,772	566,325,795	207,445,486	-	773,771,281
Changes to net assets:							
Enterprises contribution to the Foundation (Note 17)	-	-	-	-	(512,969)	512,969	-
Contribution from the Foundation to Enterprises (Note 17)	-	(252,074,586)	-	(252,074,586)	252,074,586	-	-
	<u>-</u>	<u>(252,074,586)</u>	<u>-</u>	<u>(252,074,586)</u>	<u>252,074,586</u>	<u>-</u>	<u>-</u>
Net assets at end of year	<u>\$ 196,586,394</u>	<u>\$ 107,427,565</u>	<u>\$ 50,821,993</u>	<u>\$ 354,835,952</u>	<u>\$ 459,588,700</u>	<u>\$ -</u>	<u>\$ 814,424,652</u>

