

**San Antonio Area Foundation**

Combined Financial Statements

December 31, 2011 and 2010

# San Antonio Area Foundation

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Independent Auditors' Report

To the Board of Directors  
San Antonio Area Foundation  
San Antonio, Texas

We have audited the accompanying combined statement of financial position of the San Antonio Area Foundation (the "Foundation") as of December 31, 2011, and the related combined statements of activities and changes in net assets and cash flows for the year then ended. These combined financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The combined financial statements of the Foundation for the year ended December 31, 2010, before they were restated for the matters described in Note 18 to the combined financial statements, were audited by other auditors whose report, dated May 5, 2011, expressed an unqualified opinion on those statements.

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 combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the San Antonio Area Foundation as of December 31, 2011, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited the adjustments described in Note 18 to the combined financial statements to restate the 2010 combined financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

*Padgett Stratemann & Co LLP*

Certified Public Accountants  
April 17, 2012

**SAN ANTONIO**

100 N.E. LOOP 410, SUITE 1100  
SAN ANTONIO, TEXAS 78216  
210 828 6281

**AUSTIN**

811 BARTON SPRINGS ROAD, SUITE 550  
AUSTIN, TEXAS 78704  
512 476 0717

TOLL FREE: 800 879 4966

WEB: PADGETT-CPA.COM

# San Antonio Area Foundation

## Combined Statements of Financial Position

December 31, 2011 and 2010

### Assets

	<u>2011</u>	<u>2010</u> (Restated)
Cash and cash equivalents	\$ 32,271,877	\$ 26,394,173
Restricted cash	296,500	-
Investments:		
Mutual funds – equities	91,323,452	47,208,653
Mutual funds – fixed income	56,562,461	59,127,641
Pooled funds	-	48,265,594
Stocks – public	16,845,531	9,679,968
Stocks – private	-	9,811,911
Corporate obligations	1,316,597	770,792
United States government agency obligations	4,253,888	1,440,689
Real estate investment trusts	548,687	6,374,225
Partnerships	4,585,487	1,928,843
Annuities	409,719	429,709
Mineral interests	515,724	238,910
Other investments	<u>715,740</u>	<u>738,783</u>
Total investments	177,077,286	186,015,718
Receivables:		
Contributions	85,550	400,964
Mortgage and other receivables	504,221	2,018,578
Estimated value of unsettled estates	1,152,308	1,400,782
Split interest receivable	1,232,473	1,232,473
Other receivables	-	1,250,233
Accrued interest	15,309	-
Income receivable	5,946	1,783
Accounts receivable – trade	39,213	192,256
Allowance for doubtful accounts	<u>(1,523)</u>	<u>-</u>
Total receivables	3,033,497	6,497,069
Other assets and prepaid expenses	214,373	85,860
Property and equipment – net	827,073	947,508
Assets available for sale	<u>3,794,063</u>	<u>3,794,063</u>
Total assets	<u>\$ 217,514,669</u>	<u>\$ 223,734,391</u>

*Notes to combined financial statements form an integral part of these statements.*

## Liabilities and Net Assets

	<u>2011</u>	<u>2010 (Restated)</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 77,550	\$ 282,041
Deferred revenue	261,500	50,000
Grants payable	1,152,275	1,070,243
Settlement payable	3,293,481	3,626,407
Liabilities to annuitant	373,637	209,275
Other liabilities	194,150	150,180
Amounts held in custody for others	<u>36,172,519</u>	<u>36,881,236</u>
Total liabilities	<u>41,525,112</u>	<u>42,269,382</u>
Net assets:		
Unrestricted:		
Designated for reserve fund	1,010,647	2,814,272
Designated for endowment	996,172	1,051,479
Undesignated	<u>66,438,302</u>	<u>74,210,539</u>
Total unrestricted net assets	68,445,121	78,076,290
Temporarily restricted net assets	58,712,394	55,781,658
Permanently restricted net assets	<u>48,832,042</u>	<u>47,607,061</u>
Total net assets	<u>175,989,557</u>	<u>181,465,009</u>
Total liabilities and net assets	<u>\$ 217,514,669</u>	<u>\$ 223,734,391</u>

## San Antonio Area Foundation

### Combined Statement of Activities and Changes in Net Assets

Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, support, and other changes:				
Gifts, grants, and contributions	\$ 1,754,579	\$ 1,969,374	\$ 473,284	\$ 4,197,237
Dividends and interest on investments	1,961,777	1,398,719	92,787	3,453,283
Other investment income	591,397	412,299	1,503	1,005,199
Net realized gains on investments	1,641,364	1,838,581	6,297	3,486,242
Net unrealized loss on investments	(3,393,019)	(2,970,714)	(405,421)	(6,769,154)
Program revenue	3,674,223	1,041,243	-	4,715,466
Other income	249,828	104,765	-	354,593
Net assets released from restriction	<u>(193,000)</u>	<u>(863,531)</u>	<u>1,056,531</u>	<u>-</u>
Total revenues, support, and other changes	<u>6,287,149</u>	<u>2,930,736</u>	<u>1,224,981</u>	<u>10,442,866</u>
Expenses:				
Investment	2,373,677	-	-	2,373,677
Program expense	3,544,390	-	-	3,544,390
Fundraising expense	386,727	-	-	386,727
General and administrative	<u>677,507</u>	<u>-</u>	<u>-</u>	<u>677,507</u>
Total expenses	<u>6,982,301</u>	<u>-</u>	<u>-</u>	<u>6,982,301</u>
Grant distributions	<u>8,936,017</u>	<u>-</u>	<u>-</u>	<u>8,936,017</u>
Change in net assets	<u>(9,631,169)</u>	<u>2,930,736</u>	<u>1,224,981</u>	<u>(5,475,452)</u>
Net assets at beginning of year	<u>78,076,290</u>	<u>55,781,658</u>	<u>47,607,061</u>	<u>181,465,009</u>
Net assets at end of year	<u>\$ 68,445,121</u>	<u>\$ 58,712,394</u>	<u>\$ 48,832,042</u>	<u>\$ 175,989,557</u>

*Notes to combined financial statements form an integral part of these statements.*

## San Antonio Area Foundation

### Combined Statement of Activities and Changes in Net Assets

Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total (Restated)</u>
Revenues, support, and other changes:				
Gifts, grants, and contributions	\$ 1,646,359	\$ 20,875,934	\$ 222,495	\$ 22,744,788
Dividends and interest on investments	1,591,623	2,273,076	97,090	3,961,789
Other investment income	73,692	268,759	-	342,451
Net realized gains on investments	2,232,414	2,468,221	129,699	4,830,334
Net unrealized gain on investments	2,218,576	3,102,483	351,630	5,672,689
Program revenue	6,208,732	-	-	6,208,732
Other income	228,748	-	-	228,748
Net assets released from restriction	<u>8,875,533</u>	<u>(8,522,002)</u>	<u>(353,531)</u>	<u>-</u>
Total revenues, support, and other changes	<u>23,075,677</u>	<u>20,466,471</u>	<u>447,383</u>	<u>43,989,531</u>
Expenses:				
Investment	2,319,559	-	-	2,319,559
Program expense	4,776,602	-	-	4,776,602
Fundraising expense	297,677	-	-	297,677
General and administrative	<u>425,146</u>	<u>-</u>	<u>-</u>	<u>425,146</u>
Total expenses	<u>7,818,984</u>	<u>-</u>	<u>-</u>	<u>7,818,984</u>
Charitable distributions	<u>10,493,600</u>	<u>-</u>	<u>-</u>	<u>10,493,600</u>
Change in net assets	4,763,093	20,466,471	447,383	25,676,947
Net assets at beginning of year	<u>73,313,197</u>	<u>35,315,187</u>	<u>47,159,678</u>	<u>155,788,062</u>
Net assets at end of year – as restated (Note 18)	<u>\$ 78,076,290</u>	<u>\$ 55,781,658</u>	<u>\$ 47,607,061</u>	<u>\$ 181,465,009</u>

*Notes to combined financial statements form an integral part of these statements.*

## San Antonio Area Foundation

### Combined Statement of Cash Flows

Years Ended December 31, 2011 and 2010

	2011	2010 (Restated)
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (5,475,452)	\$ 25,676,947
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	172,905	112,695
Depletion	22,000	-
Contribution of nonliquid assets	-	(1,951,248)
Net realized and unrealized (gains) losses on investments	3,282,912	(10,503,023)
(Increase) decrease in mineral interests	(298,814)	13,790
Payments made on annuities	(19,990)	(11,990)
Allowance for doubtful accounts	1,523	-
Loss on disposal of property and equipment	13,653	-
Changes in:		
Receivables	715,219	2,993,609
Other assets and prepaid expenses	(128,513)	-
Accounts payable and accrued expenses	(204,491)	(58,624)
Deferred revenue	211,500	50,000
Grants payable	82,032	(830,926)
Settlement payable	(332,926)	-
Other liabilities	43,971	(1,400,010)
Liabilities to annuitant	(164,362)	146,502
Amounts held in custody for others	(708,718)	4,694,466
	<b>(2,787,551)</b>	<b>18,932,188</b>
Net cash provided by (used in) operating activities	<b>(2,787,551)</b>	<b>18,932,188</b>

*Notes to combined financial statements form an integral part of these statements.*



# San Antonio Area Foundation

## Combined Statement of Cash Flows

Years Ended December 31, 2011 and 2010

(Continued)

	<u>2011</u>	<u>2010</u> (Restated)
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	\$ (66,124)	\$ (17,842)
Collections on mortgage and other receivables	2,903,135	538,188
Purchase of mortgage and other receivables	(156,305)	(175,467)
Purchase of partnership interests	(2,656,644)	-
Purchases of investments	(79,800,499)	(39,973,708)
Sale of private stock	7,559,626	-
Contribution of private stock	2,252,285	(9,449,532)
Proceeds from sales of investments	<u>78,926,281</u>	<u>25,428,101</u>
Net cash provided by (used in) investing activities	<u>8,961,755</u>	<u>(23,650,260)</u>
Net increase (decrease) in cash and cash equivalents	<b>6,174,204</b>	<b>(4,718,072)</b>
Cash and cash equivalents at beginning of year	<u>26,394,173</u>	<u>31,112,245</u>
Cash and cash equivalents at end of year	<u>\$ 32,568,377</u>	<u>\$ 26,394,173</u>

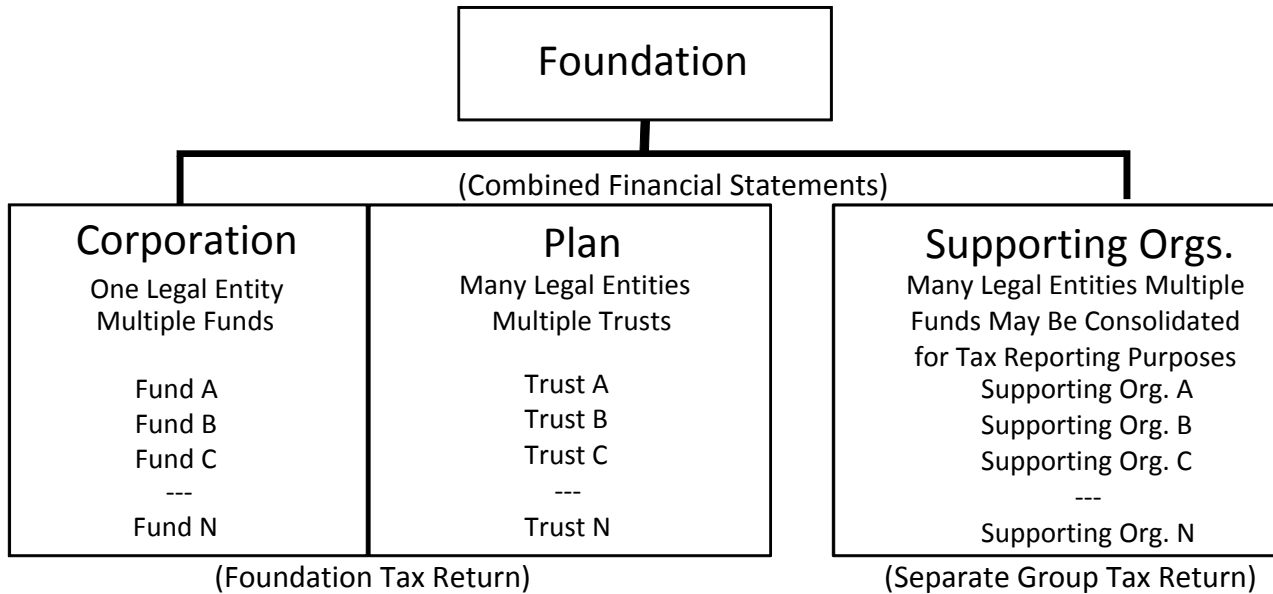
# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 1. Foundation and Significant Accounting Policies

#### Foundation

The San Antonio Area Foundation (the “Foundation”) is a “community trust,” as defined in the United States Treasury Regulations. The Foundation is composed of a Texas nonprofit charitable corporation named the San Antonio Area Foundation (the “Corporation”) and numerous charitable trusts (the “Trusts”). Each trust incorporates, by reference, the provisions of a single document called the Plan of the San Antonio Area Foundation (the “Plan”).



Although each trust and the Corporation are separate legal entities under the laws of the state of Texas, the Corporation and all the Trusts are treated as a single entity for federal income tax purposes.

The Plan assigns general responsibility for the investment of trust assets to the trustees, but assigns the responsibility for the distribution of trust income and/or corpus for charitable purposes to the Board of Directors (the “Board”) of the Corporation.

Contributions to the Corporation are recorded in separate accounting funds (the “Funds”) and each fund is used exclusively for the charitable purpose(s) designated by the donor. The Board has the responsibility for both the investment and distribution of income and/or corpus from each fund for charitable purposes.

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 1. Foundation and Significant Accounting Policies (continued)

The Foundation's combined financial statements include the Funds of the Corporation, all the Trusts, which incorporate the Plan by reference, and foundations that are operated, supervised, or controlled by the Foundation ("Supporting Organizations"): the Gunn Family Foundation; Richmond Family Foundation; Warm Springs Foundation, Inc.; NOWCastSA; South Texas Cancer Foundation (terminated during fiscal year 2010); Rapier Educational Foundation; K. Rapier Kids dba Kym's Kids; and San Antonio Area Foundation Real Estate Services #3, #5, #6, #7, #8, #9, #10, #11, and #12. The Supporting Organizations may file individual exempt foundation federal income tax returns or may be included in a group return by the Foundation.

#### ***Basis of Accounting***

The accompanying combined financial statements have been prepared on the accrual basis of accounting applicable to not-for-profit foundations in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP" or "GAAP").

Support and revenues are reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (e.g., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

#### ***Use of Estimates***

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

#### ***Recent Accounting Pronouncement***

*Fair Value Measurements: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS")*

In April 2011, the Financial Accounting Standards Board ("FASB") issued the Accounting Standards Codification ("ASC"), *Fair Value Measurements: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, to achieve common fair value measurement and disclosure requirements between GAAP and IFRS. This new guidance amends current fair value measurement and disclosure guidance to include increased transparency around valuation

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 1. Foundation and Significant Accounting Policies (continued)

#### ***Recent Accounting Pronouncement (continued)***

*Fair Value Measurements: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (“IFRS”) (continued)*

inputs and investment categorization. The new provisions are to be applied prospectively for annual periods beginning after December 15, 2011 and early adoption is not permitted. The Foundation does not expect the adoption of this guidance to have a material effect on its combined financial position, results of operations, or cash flows.

#### ***Basis of Presentation***

The combined financial statements of the Foundation and the Supporting Organizations have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues and support are recorded when earned, and expenses are recorded when incurred. Under these provisions, net assets and revenues, expenses, gains, and losses are classified as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria.

*Unrestricted Net Assets* – Unrestricted net assets consist of net assets that are not subject to donor-imposed restrictions. Unrestricted net assets result from operating revenues, unrestricted contributions, and unrestricted dividend and interest income. Unrestricted net assets may be designated for specific purposes by action of the Board.

*Temporarily Restricted Net Assets* – Temporarily restricted net assets consist of assets that are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specified event. When the donor restriction expires, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities and changes in net assets as net assets released from restriction.

*Permanently Restricted Net Assets* – Permanently restricted net assets consist of net assets that are subject to donor-imposed stipulations that are to be maintained permanently. Generally, donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes.

#### ***Charitable Gift Annuities Payable***

Charitable gift annuities represent gifts which are given to the Foundation with the condition that a specified payment be made to the donor over his or her life. A liability is established based on the present value of the payments to be made. This liability is recalculated annually, based on life expectancy assumptions, and payments made. Changes in the liability are recorded in the current year as change in split interest.

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 1. Foundation and Significant Accounting Policies (continued)

#### ***Cash Equivalents***

For financial statement purposes, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Amounts excluded are cash and investments that are restricted for endowments. These cash and investments are classified as restricted cash.

#### ***Investments***

Investments are stated at fair value based upon quoted market prices, when available, or estimates of fair value in the combined statements of financial position. Unrealized gains and losses are included in the statements of activities and net assets.

Marketable investment securities are recorded at market value, as required by FASB. Assets donated to the Foundation are recorded at their estimated fair value at the date of donation. Cost has been used as the fair value for those investments which do not have readily determinable fair values. Increases or decreases in market values are recognized at the end of the accounting period.

The Foundation has significant investments in stocks, bonds, and mutual funds and is, therefore, subject to concentrations of credit risk. Investments are made by investment managers engaged by the Foundation, and the investments are monitored for the Foundation by an investment advisor. In addition to the assets previously noted, the Foundation has investments in mineral interests, partnerships, and annuities. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Foundation and its beneficiaries.

The Foundation has an investment policy that sets guidelines and constraints to ensure the portfolio is appropriately diversified.

#### ***Risk and Uncertainties***

The Foundation invests in various investment securities. Investment securities are susceptible to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the combined statements of financial position.

#### ***Contributions Receivable***

Unconditional gifts made as of December 31, 2011 and 2010 are all due by December 31, 2012 and 2011, respectively, and have been deemed to be fully collectible by management.

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 1. Foundation and Significant Accounting Policies (continued)

#### ***Accounts Receivable***

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. As of December 31, 2011 and 2010, the Foundation had reserved \$1,523 and \$0, respectively, within the allowance for doubtful accounts.

#### ***Mortgage and Other Receivables***

The Foundation records mortgage and other receivables at face value and reviews activity regularly to ensure payment terms are being met. Management reviews all Foundation mortgage and other receivables as of December 31, 2011 and 2010, and determines if an allowance for doubtful accounts is necessary. There was no allowance for doubtful accounts related to mortgage and other receivables as of December 31, 2011 and 2010.

#### ***Depreciation and Amortization***

Property and equipment are stated at cost if purchased, or fair value if donated. Depreciation and amortization are calculated on the straight-line method based on the following estimated useful lives: machinery and equipment – 3 to 10 years and software conversion costs – 3 to 10 years. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease. The Foundation has adopted a capitalization policy for property and equipment of \$250.

The basis of valuation is cost if purchased, and fair value if donated. Depreciation expense totaled \$172,905 and \$112,695 for the years ended December 31, 2011 and 2010, respectively.

#### ***Assets Available for Sale***

Assets available for sale include interest in two separate real estate properties for Warm Springs Foundation, Inc. (Supporting Organization). The properties include vacant buildings and parcels of land, which are carried at cost basis. As of December 31, 2011 and 2010, the real estate properties have a cost value of \$3,794,063 and are listed as assets available for sale. Based on the current “for sale” listings, the cost basis per the combined financial statements fairly represent the value of these assets.

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 1. Foundation and Significant Accounting Policies (continued)

#### ***Impairment of Long-Lived Assets***

The Foundation reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. 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. The Foundation did not recognize an impairment loss during the years ended December 31, 2011 and 2010.

#### ***Grants Payable***

Grants and scholarships are charged to operations and recognized as liabilities when authorized by the Board, regardless of the year in which they will be paid. It is current practice of the Board to authorize grants based on a prudent distribution rate calculation or income earned on investments, depending on each fund's governing language.

#### ***Federal Income Taxes***

The Foundation is a not-for-profit foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"), as amended, except to the extent it has unrelated business activities. As such, no provision for federal income taxes has been made in the accompanying combined financial statements.

The Foundation is described in Section 509(a)(1) of the IRC and is therefore a "public charity" and not a private foundation. The Supporting Organizations also qualify as tax-exempt foundations under Section 501(c)(3) of the IRC, and each qualifies as a "public charity" rather than a private foundation because all are operated, supervised, or controlled by the Board, and are described in Section 509(a)(3) of the IRC.

The Foundation's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. For the years ended December 31, 2011 and 2010, no interest or penalties have been or are required to be accrued. The Foundation, generally, is no longer subject to income tax examinations by federal authorities for the tax years ending prior to December 31, 2008.

The Foundation adopted the provisions of FASB's ASC topic, *Income Taxes – Overall – Recognition*, which requires recognition and disclosure of uncertain tax positions in the combined financial statements and footnotes. Management of the Foundation believes it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the combined financial statements.

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 1. Foundation and Significant Accounting Policies (continued)

#### ***Public Support and Revenue***

Contributions are recorded at fair value when the Foundation is in possession of or receives an unconditional promise to give. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support based on the existence or nature of any donor restrictions. As donor or time restrictions are satisfied, net assets are reclassified to unrestricted net assets. The Foundation's policy is to report restricted support that is satisfied in the year of receipt as restricted and then fully released in the same year.

Unconditional promises to give, or pledges, are recorded in the combined financial statements when there is sufficient evidence in the form of verifiable documentation that a promise is made and received. Pledges receivable are discounted to an estimated present value. For the years ended December 31, 2011 and 2010, the Foundation had no outstanding pledges receivable.

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 their fair values in the period received. Contributed goods are recorded at their fair value in the period received. Contributed services received during the year ended December 31, 2011 totaled \$6,000 (\$0 in 2010).

#### ***Program Revenue and Expense***

Program revenue consists of contributions received and funds raised to fulfill the purpose of the Foundation. Similarly, program expense consists of goods and services distributed to fulfill the purpose of the Foundation.

#### ***Fiduciary Duty and Variance Power***

The Foundation has a fiduciary duty to comply with the charitable purposes expressed by a donor, but the Board has the power to vary the charitable purpose of a fund or trust if the Foundation, by two-thirds vote of the Board, determines that changed conditions have made the donor's restrictions on the stated charitable purpose(s) unnecessary, undesirable, incapable of fulfillment, wasteful, or inconsistent with the needs of the community. The Foundation's power to vary the charitable purpose of a fund or trust as the result of changed circumstances cannot be exercised arbitrarily.

When, and if, the Board asserts the authority to vary the charitable purposes of a fund or trust, it must apply the assets of the fund or trust to the "most nearly related charitable purpose as in the judgment of the Board will effectively accomplish the original charitable intent of the donor."



# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 1. Foundation and Significant Accounting Policies (continued)

#### *Types of Funds*

The Foundation receives contributions for Funds or Trusts that are to be used exclusively for charitable purposes. The donor may have designated one or more specific charitable purposes for all future distributions from the contribution. These Funds or Trusts are classified by charitable purpose as:

- Designated Funds or Trusts – if distributions are restricted by the donor to specific charitable agencies
- Field of Interest Funds or Trusts – if distributions are restricted by the donor to a type or range of charitable purposes
- Scholarship Funds or Trusts – if distributions are restricted to scholarships
- Undesignated Funds or Trusts – if the donor allowed distributions to be made for any charitable purpose

These four types of Funds and Trusts may each be further classified as “advised” Funds or Trusts if the donor, or any other authorized person, submits recommendations to the Foundation concerning the selection of charitable grantees, the timing or amount of grants, and/or investment policy. In addition, the Corporation holds “Acorn Funds” which cannot be distributed for charitable purposes for the first five years unless the donor’s contributions to the Acorn Funds exceed \$10,000. At the end of five years, or when the contributions exceed \$10,000, the Acorn Funds are reclassified as one type of fund described in the preceding paragraph.

#### *Contingencies*

Certain conditions may exist as of the date the combined financial statements are issued, which may result in a loss to the Foundation, but which will only be resolved 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 evaluates 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.

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 1. Foundation and Significant Accounting Policies (continued)

#### ***Contingencies (continued)***

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 would be accrued in the Foundation's combined 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, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed. As of December 31, 2011 and 2010, the Foundation has not recorded any loss contingencies.

#### ***Advertising***

Advertising costs totaled \$33,091 and \$9,117 for the years ended December 31, 2011 and 2010, respectively, and are expensed as incurred.

#### ***Subsequent Events***

The Foundation has evaluated subsequent events through April 17, 2012, the date the combined financial statements were available to be issued.

#### ***Reclassification***

Certain reclassifications have been made in the prior year's combined financial statements to conform to the current year's presentation. These reclassifications had no effect on the December 31, 2010 net assets.

### 2. Fair Value Measurements and Disclosures

The requirements of *Fair Value Measurements and Disclosures* of the ASC apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. *Fair Value Measurements and Disclosures* also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities.

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 2. Fair Value Measurements and Disclosures (continued)

- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

The following table represents assets measured at fair value on a recurring basis as reported on the combined statements of financial position as of December 31, 2011 and 2010 and by level within the fair value measurement hierarchy:

	Total Fair Value Measurement at December 31, 2011	Level 1	Level 2	Level 3
Investments:				
Mutual funds – equities	\$ 91,323,452	\$ 89,993,516	\$ 1,329,936	\$ -
Mutual funds – fixed income	56,562,461	55,579,138	983,323	-
Stocks – public	16,845,531	16,845,531	-	-
Corporate obligations	1,316,597	1,316,597	-	-
United States government agency obligations	4,253,888	3,894,365	359,523	-
Annuities	409,719	-	-	409,719
Mortgage and other receivables	2,889,002	-	1,232,473	1,656,529
Real estate investment trusts	548,687	548,687	-	-
	<b>174,149,337</b>	<b>168,177,834</b>	<b>3,905,255</b>	<b>2,066,248</b>
Real estate and other assets:				
Assets available for sale	3,794,063	-	3,794,063	-
Mineral interests	515,724	-	-	515,724
Partnerships	4,585,487	-	-	4,585,487
Other investments	715,740	-	715,740	-
	<b>9,611,014</b>	<b>-</b>	<b>4,509,803</b>	<b>5,101,211</b>
	<b>\$ 183,760,351</b>	<b>\$ 168,177,834</b>	<b>\$ 8,415,058</b>	<b>\$ 7,167,459</b>

## San Antonio Area Foundation

### Notes to Combined Financial Statements

#### 2. Fair Value Measurements and Disclosures (continued)

	Total Fair Value Measurement at December 31, 2010	Level 1	Level 2	Level 3
<b>Investments:</b>				
Mutual funds – equities	\$ 47,208,653	\$ 39,951,930	\$ 7,256,723	\$ -
Mutual funds – fixed income	59,127,641	59,127,641	-	-
Pooled funds	48,265,594	7,547,884	40,717,710	-
Stocks – public	9,679,968	9,679,968	-	-
Stocks – private	9,811,911	-	362,379	9,449,532
Corporate obligations	770,792	770,792	-	-
United States government agency obligations	1,440,689	1,440,689	-	-
Annuities	429,709	-	-	429,709
Mortgage and other receivables	4,651,833	-	1,232,473	3,419,360
Real estate investment trusts	6,374,225	-	6,374,225	-
<b>Total investments</b>	<b><u>187,761,015</u></b>	<b><u>118,518,904</u></b>	<b><u>55,943,510</u></b>	<b><u>13,298,601</u></b>
<b>Real estate and other assets:</b>				
Assets available for sale	3,794,063	-	3,794,063	-
Mineral interests	238,910	-	-	238,910
Partnerships	1,928,843	-	-	1,928,843
Other investments	738,783	-	738,783	-
<b>Total real estate and other assets</b>	<b><u>6,700,599</u></b>	<b><u>-</u></b>	<b><u>4,532,846</u></b>	<b><u>2,167,753</u></b>
	<b><u>\$ 194,461,614</u></b>	<b><u>\$ 118,518,904</u></b>	<b><u>\$ 60,476,356</u></b>	<b><u>\$ 15,466,354</u></b>

Investment securities available for sale and derivative instruments are classified within Level 2 of the valuation hierarchy, with the exception of certain Treasury bonds and certain equity investment securities that are classified within Level 1. The Foundation obtains fair value measurements for investment securities and 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 spreads, credit information, the bond's terms and conditions, and other such data.

## San Antonio Area Foundation

### Notes to Combined Financial Statements

#### 2. Fair Value Measurements and Disclosures (continued)

Level 3 Gains and Losses – the following table sets forth a summary of changes in the fair value of the Foundation’s Level 3 assets:

	December 31,	
	2011	2010 (Restated)
Investments, real estate, and other assets:		
Balance at beginning of year	\$ 13,298,601	\$ 3,779,674
Contribution of private stock	-	9,449,532
Sale of private stock	(7,559,626)	-
Payment on Warm Springs Foundation, Inc., unsecured promissory note at 10%	(1,500,000)	(360,314)
Stock transferred to partnership	(1,889,905)	-
Purchase of annuities	-	429,709
Payout of annuities	(19,990)	-
Additions/payments on mortgage and other receivables – net	(262,832)	-
Balance at end of year	<u>\$ 2,066,248</u>	<u>\$ 13,298,601</u>
Real estate and other assets:		
Balance at beginning of year	\$ 2,167,753	\$ 2,463,836
Stock transfer into partnership	1,889,906	-
Additions on mineral interests	276,814	(13,790)
Partnership contributions	200,000	86,000
Partnership distributions	566,738	-
Realized losses	-	(368,293)
Balance at end of year	<u>\$ 5,101,211</u>	<u>\$ 2,167,753</u>

#### 3. Contributions Receivable

At December 31, 2011 and 2010, contributions receivable represent amounts due in one year and have been valued at their estimated collectible amounts.

## San Antonio Area Foundation

### Notes to Combined Financial Statements

#### 4. Mortgage and Other Receivables

Mortgage and other receivables consist of the following:

	December 31,	
	2011	2010 (Restated)
Frank H. and Zona T. Hall Fund; unsecured promissory note at 6% through October 2013; principal and interest due at maturity	\$ 22,103	\$ 22,103
Carol Lee Jones Educational and Cultural Fund; mortgage receivable at 8% through January 2013; collateralized by real estate; principal and interest due monthly in the sum of \$881	100,635	102,331
David C. Dickson Charitable Fund; various mortgage receivables at 8% to 14% with varying maturities through February 2024; varying payment terms	381,483	394,144
Warm Springs Foundation, Inc.; unsecured promissory note at 10%	<u>-</u>	<u>1,500,000</u>
	<u>504,221</u>	2,018,578
Less current portion	<u>100,370</u>	<u>1,631,450</u>
	<u>\$ 403,851</u>	<u>\$ 387,128</u>

#### 5. Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2011	2010
Machinery and equipment	\$ 650,749	\$ 598,279
Software conversion costs	<u>984,620</u>	<u>984,620</u>
	1,635,369	1,582,899
Less accumulated depreciation and amortization	<u>808,296</u>	<u>635,391</u>
Net property and equipment	<u>\$ 827,073</u>	<u>\$ 947,508</u>

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 6. Grants Payable

The schedule of unconditional awards and grants payable is as follows:

	December 31,	
	2011	2010
Payable within one year	\$ 641,775	\$ 567,250
Payable in two to five years	<u>510,500</u>	<u>502,993</u>
	<u>\$ 1,152,275</u>	<u>\$ 1,070,243</u>

Conditional promises to give are recognized when conditions on which they depend are substantially met. The Foundation has no outstanding conditional grant commitments as of December 31, 2011, which are dependent upon the recipient entity's ability to meet the conditions established at the time the grant was approved by the Foundation's Board.

### 7. Settlement Payable

A future liability of \$3,293,481 and \$3,626,407 as of December 31, 2011 and 2010, respectively, is included for Warm Springs Foundation, Inc. (Supporting Organization). The accrual relates to a settlement agreement between the Office of the Attorney General of the State of Texas through its Charitable Trusts Section and Warm Springs Foundation, Inc. in the amount of \$4,764,590. This agreement settles any claims and demands concerning Warm Springs Foundation, Inc.'s charity care reporting, policies, and procedures for its 2003 and 2004 cost reporting years and for all periods leading up to and including the date of the sale of the Warm Springs hospitals in 2006. The liability consisted of \$1,221,993 to be expended on charity care through November 2011, with the remainder to be expended over an indefinite time period to further the health and well-being of Texans, through support of charitable causes, programs, and other community benefits that continue the mission of Warm Springs Foundation, Inc.

### 8. Leases

The Foundation has entered into an operating lease agreement for office space, which expires in April 2013. The Foundation exercised the earlier termination clause within this lease and has given the landlord notice that the current rental spaces will be vacated by September 2012. Total office space rent expense amounted to \$132,313 and \$105,010 for the years ended December 31, 2011 and 2010, respectively. Additionally, the Foundation has entered into various operating leases related to office equipment. These leases have varying maturity dates throughout the year ending December 31, 2014.

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 8. Leases (continued)

Future noncancellable lease payments under these leases are as follows:

Years ending December 31,	
2012	\$ 142,464
2013	256,277
2014	402,414
2015	377,962
2016	386,701
Thereafter	<u>2,392,301</u>
	<u><b>\$ 3,958,119</b></u>

Effective June 2011, the Foundation entered into a noncancellable lease agreement with Rio Perla Properties. Under this agreement, upon turnover of the new rental facilities, which is expected to occur in the summer of 2012, the Foundation will be relocating its office spaces. Upon commencement of the lease, the Foundation will begin fulfilling the 120-month lease term. Upon completion of the initial term, the Foundation will have the option to extend the term of the lease for 3 successive periods of 5 years each.

The terms of this agreement call for an initial 12-month term with a minimum monthly rental of \$29,858. Successive incremental increases occur every 12 months throughout the life of the lease to a maximum monthly rental of \$36,412.

### 9. Endowments

#### *Interpretation of Relevant Law*

The Foundation's staff reviewed each fund or trust document to determine which should be classified as endowment funds, as defined under the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Such funds are restricted by the donor so they are not wholly expendable by the Foundation on a current basis.

The Board has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (the "Act") as requiring specific reporting of the fair value of the original gift as of the gift date of certain donor-restricted endowment funds. When a donor places permanent restrictions on the use and amount of distributions the Foundation classifies as permanently restricted net assets: (1) original value of gifts donated to the permanent endowment, (2) subsequent gifts to the endowment, and (3) accumulations made pursuant to the direction of the applicable donor gift instrument. The portion of a donor-restricted endowment fund that is classified as permanently restricted net assets is not reduced by losses on the investments of the fund, except to the extent required by the donor. All fund



# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 9. Endowments (continued)

#### *Interpretation of Relevant Law (continued)*

activity in excess of the permanently endowed value is classified as temporarily restricted net assets if the use is restricted by the donor, or as unrestricted net assets if it is not. An endowed fund with a negative balance in permanently restricted net assets will be reclassified, and shall reduce unrestricted net assets, see Note 9 for information regarding funds with negative deficiencies. These deficiencies are the result of unfavorable market fluctuations. In accordance with the Act, the Board exercises prudence when it authorizes discretionary accumulations or expenditures from a fund or trust for charitable purposes. Before authorizing an expenditure from a fund or trust, the Board considers, among other things, the following factors to the extent that the factors are applicable and appropriate:

- The duration and preservation of the fund or trust
- The purposes of the Foundation and the fund or trust
- The general economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and appreciation of the Foundation's investments
- The resources of the Foundation
- The investment policy of the Foundation

#### *Nonendowed Net Assets*

In contrast to endowed funds that can only make grants from income earned, nonendowed funds can be used in their entirety for grants, including cash from the principal. The Foundation classifies as temporarily restricted all nonendowed funds whose gift instrument restricts the expenditures from the fund to a specific charitable purpose, a specified time, or a specifically identified charitable organization. Undesignated funds and advised funds, which do not contain a purpose restriction, will be classified as unrestricted.

Additionally, at December 31, 2011 and 2010, the temporarily restricted net assets of the Foundation included the estimated value of the Foundation's interest in the Trusts that were recorded as "mortgage and other receivables" on the accompanying combined financial statements. When each charitable remainder trust terminates and the Foundation receives these assets, the resulting fund or trust that becomes part of the Foundation will be classified as permanently restricted, temporarily restricted, or unrestricted for financial statement purposes according to the restrictions, if any, imposed by the donor, and will also be classified by the Foundation for fiduciary administration purposes with respect to the charitable purpose selected by the donor, and the restrictions, if any, on the time and/or amount of distributions from income and/or corpus.

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 9. Endowments (continued)

#### ***Nonendowed Net Assets (continued)***

During the years ended December 31, 2010 and 2009, after a thorough review of donor documentation brought about by the accounting and disclosure requirements of UPMIFA, some Funds and Trusts previously classified as unrestricted for financial statement purposes were reclassified as permanently restricted or temporarily restricted. Additionally, some Funds and Trusts previously classified as temporarily restricted were reclassified as permanently restricted or unrestricted. In addition to endowment net assets, the Foundation also manages other nonendowed funds summarized in tables below:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment Net Asset Composition as of December 31, 2011</b>				
Donor designated endowment funds:				
Donor advised	\$ (279,060)	\$ 680,165	\$ 2,325,233	\$ 2,726,338
Designated	(160,761)	2,701,785	9,449,883	11,990,907
Field of interest	(1,504,854)	152,703	10,848,793	9,496,642
Scholarship	(338,793)	1,248,067	18,383,776	19,293,050
Unrestricted	(411)	1,981,700	7,824,357	9,805,646
Endowment net assets at end of year	\$ (2,283,879)	\$ 6,764,420	\$ 48,832,042	\$ 53,312,583

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Change in Endowment Net Assets for the Year Ended December 31, 2011</b>				
Endowment net assets at beginning of year	\$ (1,419,657)	\$ 8,889,657	\$ 47,607,061	\$ 55,077,061
Contributions	-	-	473,283	473,283
Investment return:				
Investment and dividend income	435,086	552,975	92,787	1,080,848
Realized gains on investments	978,978	1,610,551	251,629	2,841,158
Unrealized loss on investments	(1,588,854)	(2,051,347)	(650,753)	(4,290,954)
Other investment income	348,134	340,106	1,503	689,743
Investment expense	(141,660)	(86,117)	(44,394)	(272,171)
Administrative expenses	(310,811)	(392,573)	(69,541)	(772,925)
Grant expense (released from restriction)	(569,565)	(789,005)	(154,890)	(1,513,460)
Change in market valuation and prior period reclassification	(15,530)	(1,309,827)	1,325,357	-
Endowment net assets at end of year	\$ (2,283,879)	\$ 6,764,420	\$ 48,832,042	\$ 53,312,583

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 9. Endowments (continued)

#### *Nonendowed Net Assets (continued)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Total Net Assets Composition as of December 31, 2011</b>				
Endowment funds	\$ <u>(2,283,879)</u>	\$ <u>6,764,420</u>	\$ <u>48,832,042</u>	\$ <u>53,312,583</u>
Nonendowment funds:				
Undesignated	10,576,501	161,947	-	10,738,448
Donor advised	39,373,718	3,606,549	-	42,980,267
Designated	-	5,684,296	-	5,684,296
Field of interest	911	15,965,332	-	15,966,243
Scholarship	-	10,131,227	-	10,131,227
Acorn Funds	-	89,927	-	89,927
Supporting organizations	<u>15,004,517</u>	<u>16,145,503</u>	<u>-</u>	<u>31,150,020</u>
Subtotal nonendowment funds	64,955,647	51,784,781	-	116,740,428
Board-designated funds	<u>5,773,353</u>	<u>163,193</u>	<u>-</u>	<u>5,936,546</u>
Total nonendowment funds	<u>70,729,000</u>	<u>51,947,974</u>	<u>-</u>	<u>122,676,974</u>
Total net assets	<u>\$ 68,445,121</u>	<u>\$ 58,712,394</u>	<u>\$ 48,832,042</u>	<u>\$ 175,989,557</u>
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment Net Asset Composition as of December 31, 2010 – as Restated</b>				
Donor designated endowment funds:				
Donor advised	\$ (551,365)	\$ 586,268	\$ 2,695,160	\$ 2,730,063
Designated	-	2,582,581	9,533,341	12,115,922
Field of interest	(868,292)	-	11,702,033	10,833,741
Scholarship	-	1,470,496	18,378,805	19,849,301
Unrestricted	<u>-</u>	<u>4,250,312</u>	<u>5,297,722</u>	<u>9,548,034</u>
Endowment net assets at end of year – as restated	<u>\$ (1,419,657)</u>	<u>\$ 8,889,657</u>	<u>\$ 47,607,061</u>	<u>\$ 55,077,061</u>

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 9. Endowments (continued)

#### *Nonendowed Net Assets (continued)*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Change in Endowment Net Assets for the Year Ended December 31, 2010</b>				
Endowment net assets at beginning of year	\$ (1,864,441)	\$ 7,038,160	\$ 47,159,678	\$ 52,333,397
Contributions	-	-	222,495	222,495
Investment return:				
Investment and dividend income	285,497	800,397	97,090	1,182,984
Realized gains on investments	237,988	1,411,576	129,699	1,779,263
Unrealized gain on investments	512,149	1,614,315	351,630	2,478,094
Other investment income	868	199,537	-	200,405
Investment expense	(80,719)	(147,340)	(33,553)	(261,612)
Administrative expenses	(154,435)	(625,148)	(69,329)	(848,912)
Grant expense (released from restriction)	(356,564)	(1,401,840)	(250,649)	(2,009,053)
Endowment net assets at end of year – as restated	\$ (1,419,657)	\$ 8,889,657	\$ 47,607,061	\$ 55,077,061
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Total Net Assets Composition as of December 31, 2010</b>				
Endowment funds	\$ (1,419,657)	\$ 8,889,657	\$ 47,607,061	\$ 55,077,061
Nonendowment funds:				
Undesignated	10,251,971	522,566	-	10,774,537
Donor advised	42,737,755	3,687,194	-	46,424,949
Designated	-	5,450,885	-	5,450,885
Field of interest	-	17,091,276	-	17,091,276
Scholarship	-	9,869,781	-	9,869,781
Acorn Funds	-	61,553	-	61,553
Supporting organizations	19,984,334	10,112,223	-	30,096,557
Subtotal nonendowment funds	72,974,060	46,795,478	-	119,769,538
Board-designated funds	6,521,887	96,523	-	6,618,410
Total nonendowment funds	79,495,947	46,892,001	-	126,387,948
Total net assets – as restated	\$ 78,076,290	\$ 55,781,658	\$ 47,607,061	\$ 181,465,009

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 9. Endowments (continued)

#### *Return Objectives and Risk Parameters*

The Foundation has adopted a prudent “total return” investment policy for all Funds and Trusts. The Foundation tries to obtain a reasonable rate of total return over a reasonable period of time for all Funds and Trusts in order to maintain the Funds’ and Trusts’ purchasing power, which might otherwise be eroded by inflation. The investment objective is to obtain a total rate of return that exceeds the sum of the consumer price index, all investment and administration expenses, and scheduled distributions of annual charitable expenditures.

#### *Strategies Employed for Achieving Objectives*

The Foundation attempts to minimize risk with respect to its fund investments and asset allocation policy by diversifying investments, rebalancing portfolios to maintain asset allocation, and diligently monitoring the performance of its investment managers.

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 gains) and current yield (interest and dividends). The Foundation invests its Funds in a diversified fashion across multiple asset classes to take advantage of the long-term return objectives of equity-based investments and the relative security and consistency of fixed income securities, always with prudent risk management in mind.

### 10. Amounts Held in Custody for Others

FASB establishes standards for transactions in which a community foundation accepts a contribution from a donor, and agrees to transfer those assets, the return on investment of those assets, or both, to a beneficiary named by the donor. If a not-for-profit organization establishes a fund at a community foundation with its own resources and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability on its books of account. The Foundation maintains variance power and legal ownership of these Funds and, as such, reports them as assets of the Foundation. However, a liability is also established for the full value of such Funds. The Foundation refers to such Funds as agency endowments.

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 10. Amounts Held in Custody for Others (continued)

As of December 31, 2011 and 2010, the Foundation was the owner of 58 agency endowment funds, with a combined value of \$36,172,519 and \$36,881,236, respectively. The following table summarizes the combined activity in such Funds:

	December 31,	
	2011	2010 (Restated)
Agency endowment funds at beginning of year	\$ 36,881,236	\$ 32,186,770
Amounts raised	3,562,469	3,881,146
Investment income	714,106	930,719
Unrealized and realized losses – net	(406,270)	3,072,148
Distributions	(4,366,377)	(2,941,943)
Administrative expenses	(212,645)	(247,604)
Agency endowment funds at end of year	\$ 36,172,519	\$ 36,881,236

### 11. Donated Rental Space

NOWCastSA, a Supporting Organization of the Foundation, is a beneficiary of donated rental space. The donated space serves as NOWCastSA's administrative offices. Donated rental space had an estimated value of \$9,000 for the years ended December 31, 2011 and 2010.

### 12. Defined Contributions Retirement Plan

The Foundation has adopted a Simplified Employee Pension Plan, effective June 1, 1994. All full-time employees are eligible beneficiaries on the January 1 following their initial date of employment. The percentage contributed by the Foundation is set annually and may range from 0% to 15% of an employee's gross wages. For the years ended December 31, 2011 and 2010, the Foundation recognized expenses of \$63,231 and \$55,223, respectively, related to the plan.

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### **13. Significant Estimates and Concentrations**

The Foundation maintains its cash 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.

### **14. Supporting Organizations**

The Gunn Family Foundation; Richmond Family Foundation; Warm Springs Foundation, Inc.; NOWCastSA; South Texas Cancer Foundation (terminated during fiscal year 2010); the Rapier Educational Foundation; K. Rapier Kids dba Kym's Kids; and the San Antonio Area Foundation Real Estate Services #3, #5, #6, #7, #8, #9, #10, #11, and #12 (the Supporting Organizations) are affiliated with the Foundation.

Each of the Supporting Organizations is a Texas nonprofit corporation and gains exempt treatment from federal income tax under Section 501(c)(3) of the IRC, operating in support of the mission and benefit of the Foundation.

### **15 Charitable Remainder Unitrusts**

The Foundation is the revocable beneficiary of charitable remainder unitrusts. The terms of the various trust agreements allow the grantors of the trusts to change the ultimate beneficiary of the trusts. 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 accompanying combined financial statements.

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### **16. Split Interest Agreements**

In prior years, two donors issued revocable charitable remainder trusts. Due to the death of these donors, the Foundation became the irrevocable remainder beneficiary to these trusts during 2005.

Under the terms of the first irrevocable trust, the lead beneficiary is to receive quarterly distributions of \$6,000 and the trust will pay necessary expenses for the lead beneficiary to reside in the donor's primary residence. At the time of the lead beneficiary's death, the trust's assets will be transferred to a named charitable trust within the Foundation. The Foundation's management has estimated the present value of the future benefits of this gift in 2011 and 2010 to be \$1,232,473, and has recorded the gift as a temporarily restricted contribution under the other receivables category.

Under the terms of the second irrevocable trust, the lead beneficiary shall receive the income from the trust during its lifetime. Principal access by the lead beneficiary is available for health maintenance and support, but only after all other resources have been exhausted. The Foundation's management has determined the value of future benefits to be beyond estimation at this point in time and, therefore, the values are not reflected in the accompanying combined financial statements.

### **17. Net Assets Released From Restriction**

Purpose restricted net assets totaling \$1,056,531 and (\$353,531) were released from donor restrictions during the years ended December 31, 2011 and 2010, respectively, by incurring expenses satisfying the restricted purposes.



# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 18. Prior Period Adjustment and Restated Combined Financial Statements

A prior period adjustment for \$871,821 was recorded in 2011 relating to the fiscal year ended 2010. The first part of this adjustment corrected the omission of a 2010 contribution of cash and investments. The effect of this adjustment was an increase in net income/assets of \$610,354, which was comprised of an increase in assets of \$756,855 and a related increase in liabilities of \$146,501. The second part of the adjustment corrected the omission of two prior period contributions that resulted in an increase in assets and net income/assets of \$261,467. Below is a schedule summarizing how these accounts changed:

	Prior Year Audit	Restatement Adjustments	Reclassifications	Current Year Totals for Prior Year Audit
Cash and cash equivalents	\$ 26,042,671	\$ 351,502	\$ -	\$ 26,394,173
Investments:				
Mutual funds – equities	47,208,653	-	-	47,208,653
Mutual funds – fixed income	59,127,641	-	-	59,127,641
Pooled funds	48,265,594	-	-	48,265,594
Stocks – public	9,679,968	-	-	9,679,968
Stocks – private	9,811,911	-	-	9,811,911
Corporate obligations	770,792	-	-	770,792
United States government agency obligations	1,440,689	-	-	1,440,689
Real estate investment trusts	6,374,225	-	-	6,374,225
Partnerships	1,842,843	86,000	-	1,928,843
Annuities	-	405,353	24,356	429,709
Mineral interests	238,910	-	-	238,910
Other investments	-	-	738,783	738,783
Receivables:				
Contributions	400,964	-	-	400,964
Mortgage and other receivables	3,075,584	175,467	(1,232,473)	2,018,578
Estimated value of unsettled estates	-	-	1,400,782	1,400,782
Split interest receivable	-	-	1,232,473	1,232,473
Other receivables	1,613,946	-	(363,713)	1,250,233
Accrued interest	-	-	-	-
Income receivables	-	-	1,783	1,783
Accounts receivable – trade	-	-	192,256	192,256
Allowance for doubtful accounts	-	-	-	-
Other assets and prepaid expenses	1,593,761	-	(1,507,901)	85,860
Property and equipment – net	5,227,917	-	(4,280,409)	947,508
Assets available for sale	-	-	3,794,063	3,794,063
	<u>\$ 222,716,069</u>	<u>\$ 1,018,322</u>	<u>\$ -</u>	<u>\$ 223,734,391</u>
Total assets	<u>\$ 222,716,069</u>	<u>\$ 1,018,322</u>	<u>\$ -</u>	<u>\$ 223,734,391</u>

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 18. Prior Period Adjustment and Restated Combined Financial Statements (continued)

	Prior Year Audit	Restatement Adjustments	Reclassifications	Current Year Totals for Prior Year Audit
<b>Liabilities:</b>				
Accounts payable and accrued expenses	\$ 275,093	\$ -	\$ 6,948	\$ 282,041
Deferred revenue	-	-	50,000	50,000
Grants payable	4,696,650	-	(3,626,407)	1,070,243
Settlement payable	-	-	3,626,407	3,626,407
Liabilities to annuitant	-	146,501	62,774	209,275
Other liabilities	269,902	-	(119,722)	150,180
Amounts held in custody for others	36,881,236	-	-	36,881,236
Total liabilities	<u>42,122,881</u>	<u>146,501</u>	<u>-</u>	<u>42,269,382</u>
<b>Net assets:</b>				
<b>Unrestricted:</b>				
Designated for reserve fund	-	-	2,814,272	2,814,272
Designated for endowment	-	-	1,051,479	1,051,479
Undesignated	77,363,719	712,571	(3,865,751)	74,210,539
Total unrestricted net assets	77,363,719	712,571	-	78,076,290
Temporarily restricted net assets	55,622,408	159,250	-	55,781,658
Permanently restricted net assets	47,607,061	-	-	47,607,061
Total net assets	<u>180,593,188</u>	<u>871,821</u>	<u>-</u>	<u>181,465,009</u>
Total liabilities and net assets	<u>\$ 222,716,069</u>	<u>\$ 1,018,322</u>	<u>\$ -</u>	<u>\$ 223,734,391</u>

# San Antonio Area Foundation

## Notes to Combined Financial Statements

### 18. Prior Period Adjustment and Restated Combined Financial Statements (continued)

	Prior Year Audit	Restatement Adjustments	Reclassifications	Current Year Totals for Prior Year Audit
Revenues, support, and other changes:				
Gifts, grants, and contributions	\$ 25,004,409	\$ 871,821	\$ (3,131,442)	\$ 22,744,788
Dividends and interest on investments	4,345,119	-	(383,330)	3,961,789
Other investment income	888,833	-	(546,382)	342,451
Net realized gains on investments	4,926,862	-	(96,528)	4,830,334
Net unrealized gain on investments	6,511,822	-	(839,133)	5,672,689
Program revenue	-	-	6,208,732	6,208,732
Other income	-	-	228,748	228,748
	<u>41,677,045</u>	<u>871,821</u>	<u>1,440,665</u>	<u>43,989,531</u>
Expenses:				
Investment	653,552	-	1,666,007	2,319,559
Program expense	-	-	4,776,602	4,776,602
Fundraising expense	-	-	297,677	297,677
General and administrative	4,012,790	-	(3,587,644)	425,146
	<u>4,666,342</u>	<u>-</u>	<u>3,152,642</u>	<u>7,818,984</u>
Charitable distributions	<u>12,205,577</u>	<u>-</u>	<u>(1,711,977)</u>	<u>10,493,600</u>
Change in net assets	24,805,126	871,821	-	25,676,947
Net assets at beginning of year	<u>155,788,062</u>	<u>-</u>	<u>-</u>	<u>155,788,062</u>
Net assets at end of year – as restated	<u>\$ 180,593,188</u>	<u>\$ 871,821</u>	<u>\$ -</u>	<u>\$ 181,465,009</u>