San Antonio Area Foundation

Consolidated Financial Statements
and Supplementary Information
December 31, 2018

Contents

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, 2018, 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, 2018, 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.

Emphasis of Matter
The Foundation adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the current year, see Note 1. The adoption of the standard resulted in additional footnote disclosures and significant changes to classification of net assets and the disclosures related to net assets. The adoption was retrospectively applied to January 1, 2018. Our opinion is not modified with respect to this matter.

RSM US LLP

San Antonio, Texas
August 20, 2019

San Antonio Area Foundation

Consolidated Statement of Financial Position
December 31, 2018

Assets		
Cash and cash equivalents	$	95,790,009
Receivables:		
Accounts receivable and other receivables, net		2,745,315
Investments pending trade receivable		13,049,595
Contributions receivable, net		4,527,998
Notes receivable		860,768
Total receivables		21,183,676
Investments:		
Cash equivalent funds and securities		287,185,305
Limited liability companies and partnerships		48,969,827
Oil and gas interests		25,422,447
Real estate		971,603
Real estate, leasing and theater operations, net		344,541,436
Total investments		707,090,618
Prepaid expenses and other assets		5,487,916
Beneficial interest in John L. Santikos Living Trust		2,741,559
Beneficial interest in perpetual trusts		21,719,306
Headquarters and equipment, net		966,272
Interest rate swaps		1,052,643
Goodwill		89,279,798
Collections (Note 8)		-
Total assets	$	945,311,797
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$	19,368,621
Grants and scholarships payable, net		7,215,813
Deferred revenue		3,743,455
Charitable gift annuities payable		395,933
Other liabilities		728,234
Long-term debt		89,441,397
Charitable funds held for the benefit of other organizations		16,073,789
Total liabilities		136,967,242
Net assets:		
Without donor restrictions:		
Designated for reserve fund		6,010,701
Donor advised and other designated funds		206,532,977
Undesignated		2,209,885
Total without donor restrictions		214,753,563
With donor restrictions		593,590,992
Total with donor restrictions		593,590,992
Total net assets		808,344,555
Total liabilities and net assets	$	945,311,797

See notes to consolidated financial statements.

San Antonio Area Foundation

Consolidated Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Foundation:			
Contributions and grants	$ 34,589,065	$ 7,059,171	$ 41,648,236
Investment income, net	7,183,073	2,351,366	9,534,439
Net realized and unrealized gains (losses) on investments	4,999,567	(8,495,810)	(3,496,243)
Mineral interest revenue, net	4,793,948	546,917	5,340,865
Change in value of perpetual trusts	70,846	(12,861,950)	(12,791,104)
Change in value of John L. Santikos Living Trust	-	176,993	176,993
Change in value of gift annuities	(101,566)	-	(101,566)
Program revenue	126,899	-	126,899
Other income	119,765	17,403	137,168
Net assets released from restriction	21,141,093	(21,141,093)	-
	72,922,690	(32,347,003)	40,575,687
Enterprises:			
Theater box office, concessions, and other theater revenue	-	90,201,825	90,201,825
Rental income	-	14,777,844	14,777,844
Interest income	-	632,965	632,965
Investment income, net	-	2,238,415	2,238,415
Change in net unrealized gains on interest rate swaps	-	326,712	326,712
Net assets released from restriction	100,005,269	(100,005,269)	-
	100,005,269	8,172,492	108,177,761
Total revenues and support	172,927,959	(24,174,511)	148,753,448
Expenses:			
Foundation:			
Grants and scholarships	41,696,698	-	41,696,698
Program services	5,005,584	-	5,005,584
Fundraising expense	672,080	-	672,080
General and administrative	6,922,881	-	6,922,881
Federal taxes	531,033	-	531,033
	54,828,276	-	54,828,276
Enterprises:			
Theater and real estate operations	84,622,110	-	84,622,110
General and administrative	14,314,790	-	14,314,790
Income tax	1,068,369	-	1,068,369
	100,005,269	-	100,005,269
Total expenses	154,833,545	-	154,833,545
Change in net assets	18,094,414	(24,174,511)	(6,080,097)
Net assets at beginning of year	196,659,149	617,765,503	814,424,652
Net assets at end of year	$ 214,753,563	$ 593,590,992	$ 808,344,555

See notes to consolidated financial statements.

San Antonio Area Foundation

Consolidated Statement of Cash Flows
December 31, 2018

Cash flows from operating activities:	
Change in net assets	$ (6,080,097)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Impairment of long-lived assets	1,656,863
Provision for bad debts	404,453
Depreciation and amortization	13,448,014
Net realized and unrealized losses on investments	3,496,243
Change in value of perpetual and charitable remainder trusts	12,802,164
Change in value of beneficial interest in John L. Santikos Living Trust	(176,993)
Change in value of derivatives	(326,712)
Loss on sale of assets, net	558,325
Net change in:	
Contributions receivable, net	(492,248)
Other receivables	1,798,463
Prepaid expenses and other assets	444,491
Accounts payable and accrued expenses	2,395,196
Grants payable and scholarship payable, net	(4,254,284)
Deferred revenue	5,825
Other liabilities	(754,850)
Amounts held in custody for others	(1,508,849)
Net cash provided by operating activities	23,416,004
Cash flows from investing activities:	
Purchases of property and equipment	(30,613,510)
Proceeds from sale of assets	30,783,247
Collections on notes receivable	37,915
Purchases of investments	(107,349,975)
Proceed from sale of investments	72,617,313
Net cash used in investing activities	(34,525,010)
Cash flows from financing activities:	
Payments on long-term debt	(12,069,565)
Proceeds from long-term debt	14,165,838
Net increase in liabilities due to annuitants	260,568
Payment of deferred financing fees	111,907
Net cash provided by financing activities	2,468,748
Net decrease in cash and cash equivalents	(8,640,258)
Cash and cash equivalents at beginning of year	104,430,267
Cash and cash equivalents at end of year	$ 95,790,009
Supplemental disclosures of cash flow information:	
Cash paid for taxes	$ 1,350,000
Cash paid for interest	$ 3,664,715
Supplemental disclosures of noncash flow information:	
Accounts payable included in construction in progress and investments	$ 1,985,697
Refinance debt	$ 16,843,725
Land contributed for investments	$ 3,002,004

See 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, incorporated on October 26, 1983, is a Texas nonprofit corporation without members or capital stock 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)—dissolved effective December 31, 2018
- Choose to Succeed (2012)
- Friends of the Carver Academy/IDEA (2013)
- 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)

The John L. Santikos Living Trust (the Trust) was established by Mr. John L. Santikos. Prior to his death on December 30, 2014, Mr. Santikos conveyed 100% ownership interest in all his related entities (collectively, Enterprises) to the Trust. Mr. Santikos remained the Trustee of the Trust until his death, at which time the Trust became an irrevocable trust and a named Trustee was appointed pursuant to Mr. Santikos' directive in the Trust Agreement. Under the terms of the Trust, Mr. Santikos gifted the majority of his estate, including the ownership interests in Enterprises, cash and certain other miscellaneous property to the Foundation to be held by the Foundation for the benefit of a fund of the Foundation deemed the John L. Santikos Charitable Foundation (the Santikos Foundation).

Note 1. Foundation and Significant Accounting Policies (Continued)

The Santikos Foundation consists of Santikos Enterprises, LLC (Enterprises) and the Santikos Charitable Fund (the Charitable Fund). The transfer of these assets from the Trust to the Santikos Foundation was executed over the years following Mr. Santikos' death through a series of steps designed to facilitate an orderly transfer of ownership interests. The assets remaining in the Trust of $2,741,559 are held by the trustee of the Trust in accordance with the final accounting for the Trust.

Enterprises is a Texas limited liability company formed in 2015 with nonprofit language and restrictions in its Certificate of Formation. On December 31, 2017, all assets and liabilities were transferred through a series of transactions from the Foundation to the Santikos Foundation, which is owned 100% by the Foundation. The Santikos Foundation is the sole member of Enterprises. Enterprises owns 100% of the membership interests in the theater and nontheater real estate companies. Nontheater real estate companies hold raw land and operate retail and mixed-use centers involved in commercial real estate leasing and operations. Enterprises also owns 100% of the membership interest in Santikos Capital Company, LLC (CapCo). Enterprises holds and manages the following:

- Santikos Capital Company, LLC
- Santikos Silverado Realty, LLC
- Santikos Embassy Shopping Center, LLC
- Santikos Mayan Shopping Center, LLC
- Santikos Westlakes Shopping Center, LLC
- Santikos Legacy, LLC
- Santikos Northpointe Shopping Center, LLC
- Santikos Military Crossing Shopping Center, LLC
- Santikos Raw Land, LLC
- Santikos Silverado Raw Land, LLC
- Santikos 410 Raw Land, LLC
- Santikos Potranco Raw Land, LLC
- Santikos Trinity Oaks Theater Realty, LLC
- Santikos Tri-County Parkway, LLC
- Santikos Ball Street, LLC
- Santikos Theaters, LLC
- Santikos Palladium Realty, LLC
- Santikos Mayan Realty, LLC
- Santikos Silverado SA Theater Realty, LLC
- Santikos Cibolo Crossing Theater 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

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 two classes of net assets—without and with donor restrictions.

Note 1. Foundation and Significant Accounting Policies (Continued)

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.

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 consolidated 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 in perpetuity (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.

Without donor restrictions: Funds consist of net assets that are not subject to donor-imposed restrictions. The Foundation also classifies all funds with explicit variance power, subject only to purpose restrictions, as without donor restrictions.

With donor restrictions: Funds with purpose restrictions and without explicit variance power are classified as with donor restrictions. Funds subject to time restrictions with or without variance power are classified as with donor restrictions until the expiration of the time restriction. For endowment funds explicitly acknowledging variance power, the Foundation classifies as with donor restrictions (a) the original value of gifts contributed to the endowment in perpetuity and perpetual trusts created under the Plan, (b) the original value of subsequent gifts to the endowments in perpetuity and perpetual trusts created under the Plan and (c) accumulations to the endowments in perpetuity 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 with donor restrictions once amounts are appropriated for spending from these funds, such amounts are classified as without donor restrictions.

For endowment funds lacking explicit variance power, the Foundation classifies as with donor restrictions (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 without donor restrictions once spent.

Note 1. Foundation and Significant Accounting Policies (Continued)

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

Restriction	With Explicit Variance Power	Without Explicit Variance Power
Purpose	Without donor restriction	With donor restriction
Time	With donor restriction	With donor restriction
Endowment	With donor restriction	With donor restriction
Unrestricted	Without donor restriction	Without donor restriction

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 with donor restrictions 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 with donor restrictions 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 with donor restrictions 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 without donor restrictions. The Foundation holds 16 funds at December 31, 2018, which are purpose restricted, and the original gift instruments do not include explicit variance power, which are classified as with donor restrictions (purpose).

Note 1. Foundation and Significant Accounting Policies (Continued)

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 with or without donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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.

Revenue for theater operations is generated principally through admission and concession sales with proceeds received at the point of sale. Other theater operating revenue consists primarily of product advertising and other ancillary revenues, which are recognized as income in the period earned. Enterprises recognizes revenue associated with gift certificates and advanced ticket sales at such time the items are redeemed, expire or redemption becomes unlikely. The determination of the likelihood of redemption is based on an analysis of historical trends.

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. Enterprises cash balance includes cash used for daily operations, cash held to meet debt compensating balance covenants and debt guarantee covenants.

Accounts receivable and other receivables: Accounts receivable and other receivables consist primarily of tenant and credit card receivables and other receivables stated at net realizable value. Accounts receivable 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. Accounts receivable as of December 31, 2018 is presented net of an allowance for doubtful accounts of $202,113.

Note 1. Foundation and Significant Accounting Policies (Continued)

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 uncollectible 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, 2018 (see Note 3).

Investments: Substantially all investments for the Foundation are in cash equivalent funds, securities and investments in oil and gas interests 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 the Foundation's management.

Investments in limited liability companies and partnerships: Investments in limited liability companies and partnerships held directly by the Foundation 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 certain limited liability companies and limited partnerships held by Enterprises which actively invest in and operate Class A hospitality, retail and commercial real estate throughout the United States are intended to be long-term investments and are carried at the lower of cost or fair value in the consolidated financial statements since these investments are considered other investments and Enterprises has not elected the fair value option for these investments.

Note 1. Foundation and Significant Accounting Policies (Continued)

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).

Cash flow hedging instruments: Enterprises uses interest rate swaps to convert variable rate debt to a fixed rate. The swap agreements are accounted for under Accounting Standards Codification (ASC) topic *Derivatives and Hedging*, which requires that every derivative instrument be recorded on the statement of financial position (balance sheet) at fair value. Not-for-profit guidance also requires that changes in the derivatives fair value of these cash flow hedges be recognized in the consolidated statement of activities. The changes in fair value totaled $326,712 as of December 31, 2018.

Investments in real estate, leasing and theater operations, net: Investments in real estate, leasing and theater operations consist primarily of land held for sale, land held for investment, 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, net of accumulated depreciation. Substantially all investments in real estate, leasing and theater 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, leasing and theater 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 building and building improvements; 20 years for land improvements; the lesser of the useful life or the lease for leasehold and tenant improvements and 2-10 years for furniture, fixtures and equipment (see Note 5).

Prepaid expenses and other assets: Prepaid expenses and other assets consist of deferred leasing and financing costs (totaling $2,580,344, which are presented net of accumulated amortization of $735,084), deferred lease income (totaling $1,195,633), prepaid expenses (totaling $976,321), inventory (totaling $580,129), deferred tax asset and tax receivable (totaling $818,967) and other assets (totaling $71,606). Deferred leasing costs 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.

Note 1. Foundation and Significant Accounting Policies (Continued)

Beneficial interest in John L. Santikos Living Trust: The beneficial interest is recorded at fair value, which is based on the fair market value of the underlying assets and liabilities held in the Trust. The Trust was established by the donor to facilitate the transfer of his bequest to the Foundation. The nominal amount remaining is maintained for the final accounting of the 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 when deemed appropriate (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*, 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, 2018.

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 net assets without donor restrictions in the year in which the items are acquired and proceeds from deaccessions or insurance recoveries are reflected as increases in net assets without donor restrictions (see Note 8).

Accounts payable and accrued expenses: The Foundation records accounts payable and accrued expenses at cost. At December 31, 2018, accounts payable and accrued expenses are primarily comprised of accounts payable and accrued expense of $12,279,125, accrued payroll, accrued vacation and related payroll taxes and withholdings of $2,140,735 and property taxes of $4,948,761.

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).

Deferred revenue: Deferred revenue includes rent collected from tenants prior to the period in which it is earned. Proceeds received from advance ticket sales and gift certificates are also recorded as deferred revenue.

Note 1. Foundation and Significant Accounting Policies (Continued)

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, 2018, other liabilities include tenant deposits of $531,707 and deferred rental expense of $196,527.

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, 2018, deferred financing costs netted against long-term debt totaled $1,150,813, which are recorded net of accumulated amortization of $212,407.

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. 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 $16,073,789 at December 31, 2018. Included in this amount are obligations totaling $381,138 due 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.

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. Enterprises is a Texas limited liability company formed in 2015 with nonprofit language and restrictions in its Certificate of Formation.

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.

Income taxes: Limited liability companies’ taxable income or loss is allocated to their members in accordance with the entity’s respective ownership percentages. All limited liability companies are subject to the Texas gross margin tax. A liability for the estimated Texas gross margin tax has been recorded in the consolidated financial statements.

Note 1. Foundation and Significant Accounting Policies (Continued)

The Santikos Foundation is a not-for-profit organization and is exempt from federal income taxes under section 501(c)(3) of the Code, except to the extent it has unrelated business activities. Enterprises made distributions to the Santikos Foundation during 2018 for estimated unrelated business income that is taxable at the Santikos Foundation level. The deferred federal tax expense for 2018 is related to amortization of deferred revenue. Significant components of federal income tax expense is as follows:

Current	$ 676,186
Deferred	(145,153)
Total	$ 531,033

Impairment: The Foundation reviews long-lived assets including investments in real estate, leasing and theater 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. Impairment losses of $1,656,863 were recognized during the year ended December 31, 2018.

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, 2018, management has not identified nor recorded any material loss contingencies.

Note 1. Foundation and Significant Accounting Policies (Continued)

Adopted accounting pronouncement: Effective January 1, 2018, the Foundation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this ASU did not have an effect on total net assets, but did result in additional note disclosures as follows:

- Net asset classifications and related disclosures
- Underwater donor-restricted endowments and related disclosures. Underwater endowment previously reported as unrestricted net assets was reclassified to net assets with donor restrictions in the amount of $72,755 effective January 1, 2018.
- Additional disclosures useful in assessing liquidity within one year of the statement of financial position date
- New reporting requirements related to expenses including disclosure of expenses by both nature and function
- Recognition of the expiration of restrictions under the placed-in-service approach for all capital gifts
- Reporting of net investment return

The Foundation made changes to terminology and classification as described above, as well as additional and modified disclosures, particularly in Notes 12, 13, 14 and 18 to the consolidated financial statements. Amounts previously reported for the year ended December 31, 2017, have been reclassified, on a retrospective basis, to achieve consistent presentation. Net asset amounts previously reported as temporarily or permanently restricted have been reclassified to be reported as with donor restrictions. Amounts previously deducted as the underwater portion of endowment funds from unrestricted net assets are now deducted from net assets with donor restrictions.

Recent accounting pronouncements issued: 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.

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.

Note 1. Foundation and Significant Accounting Policies (Continued)

In June 2018, the FASB issued 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 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.

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 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 August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU No. 2018-13 will be effective for Foundation for its year ending December 31, 2020.

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.

Note 1. Foundation and Significant Accounting Policies (Continued)

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 May 2019, the FASB issued ASU No. 2019-06, *Intangibles-Goodwill and Other (Topic 350), Business Combinations (Topic 805) and Not-for-Profit Entities (Topic 958)*. The amendment extends the private company alternatives from Topic 350 (ASU No. 2014-02) and Topic 805 (ASU No. 2014-18) to not-for-profit entities. Under the amendments to the accounting alternative in Topic 350, a not-for-profit entity should amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the not-for-profit entity demonstrates that a shorter life is more appropriate. A not-for-profit entity that elects this accounting alternative is required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. A not-for-profit entity is required to test goodwill for impairment when a triggering event occurs that indicates that the fair value of the entity (or a reporting unit) may be below its carrying amount. Under the amendments to the accounting alternative in Topic 805, for transactions occurring after the adoption of the alternative, a not-for-profit entity should subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently from the other assets of a business and all noncompetition agreements acquired. A not-for-profit entity that elects the accounting alternative in Topic 305 is required to adopt the alternative in Topic 350 to amortize goodwill. However, a not-for-profit entity that elects the accounting alternative in Topic 350 is not required to adopt the accounting alternative in Topic 805. This amendment was effective upon the issuance of the update.

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, 2018, are expected to be collected as follows:

Contributions receivable in:	
Less than one year	$ 1,609,489
One year to five years	3,183,500
	4,792,989
Less unamortized discount (4%)	264,991
	$ 4,527,998

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 $10,518,764 at December 31, 2018, 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.

Note 3. Notes Receivable

The Foundation's notes receivable at December 31, 2018, consist of the following:

Four 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	$ 69,550
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	180,000
Note receivable with fixed interest at 9.0%; maturing November 1, 2019, 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	193,718
Total	$ 860,768

The following is a summary of loans receivable by contractual maturity at December 31, 2018:

Due in less than one year	$ 445,570
Due in one year and less than five years	131,413
Due in five years or more	283,785
	$ 860,768

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 finance 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 and all other fair value measurements are the responsibility of the Foundation's finance department. Fair value measurements for investments in limited liability companies and partnerships, investments in oil and gas interests, beneficial interests in the Trust and perpetual trusts are prepared by the Foundation's finance department and approved by the Board during its review and approval of the Foundation's audited 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 ASC 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 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 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.

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.

Investment in real estate partnerships: Enterprises has investments in limited partnerships invested in real estate ventures in the United States of America. These investments are accounted for at the lower of cost or fair value since these investments are considered other investments and Enterprises has not elected the fair value option for these investments. Enterprises evaluates these investments for impairment on an annual basis. An impairment loss of $860,363 was recorded at December 31, 2018. The impaired investment was adjusted to a fair value of $4,274,660 at December 31, 2018.

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.

Beneficial interests in the John L. Santikos 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. The Foundation's beneficial interest is classified as Level 1 in the hierarchy.

Beneficial interests in perpetual trusts: Fair value measurement (unit of account) is based on 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.

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.

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, 2018, 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, 2018.

	Total	Level 1	Level 2	Level 3
Assets:				
Investments in cash equivalent funds and securities:				
Cash and cash equivalents	$ 54,553,787	$ 54,553,787	$ -	$ -
Certificates of deposit	1,756,033	-	1,756,033	-
Common stock	36,568,998	36,429,912	139,086	-
Corporate securities—preferred	176,154	176,154	-	-
Mutual funds	101,459,365	101,459,365	-	-
Corporate obligations	5,165,320	4,026,279	1,139,041	-
Municipal funds	100,148	-	100,148	-
U.S. government agency obligations	12,161,765	12,140,943	20,822	-
Mortgage backed securities	892,517	-	892,517	-
Real estate investment trusts	309,253	309,253	-	-
Investments held at NAV*	74,041,965	-	-	-
Total investments in cash equivalent funds and securities	287,185,305	209,095,693	4,047,647	-
Investments in limited liability companies and partnerships	7,878,662	-	-	7,878,662
Investments in limited liability companies and partnerships (valued at cost)	41,091,165	-	-	-
Investments in oil and gas interests	25,422,447	-	-	25,422,447
Investments in real estate	971,603	-	-	971,603
Real estate, leasing and theater operations, net	344,541,436	-	-	-
Total investments	707,090,618	209,095,693	4,047,647	34,272,712
Beneficial interest in the Trust	2,741,559	2,741,559	-	-
Beneficial interest in perpetual trusts	21,719,306	-	-	21,719,306
Interest rate swaps	1,052,643	-	1,052,643	-
	$ 732,604,126	$ 211,837,252	$ 5,100,290	$ 55,992,018
Liabilities:				
Charitable funds held for the benefit of other organizations	$ 16,073,789	$ 16,073,789	$ -	$ -

* 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.

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	$ 7,878,662	Discounted cash flows	Market comparables Discount for lack of marketability (a) Discount for lack of control (a)	N/A 10.00%-15.00% (12.77%)
Investment in oil and gas interests	25,422,447	Discounted	Revenue multiple (b)	4.8 (4.8)
Investments in real estate	971,603	Market approach	Market comparables	N/A
Beneficial interest in perpetual trusts	21,719,306	Market approach	Discount rate (a) Revenue multiple (b)	N/A 4.8 (4.8)

(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.

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, 2018	$ 77,823,793
Transfers in/(out)	(26,780,568)
Change in fair value	4,948,793
Fair value at December 31, 2018	$ 55,992,018

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, 2018:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments in cash equivalent funds and securities:				
Direct lending (a)	$ 11,957,870	$ 7,042,503	Quarterly, Illiquid	90 days, N/A
Global macro (b)	566,215	-	Daily, Monthly	2-60 days
Hedged value funds (c)	3,013,957	-	Monthly, Annually	15 days annually
Strategic equity funds (d)	1,255,321	-	Monthly	15 days
Strategic income funds (e)	538,320	-	Quarterly	90 days
Domestic mid/large cap funds (f)	546,853	-	Daily	Daily
Domestic small cap funds (g)	115,412	-	Daily	Daily
Taxable fixed income funds (h)	55,765,561	-	Daily, Monthly	Daily, 30 days
International and emerging market equity funds (i)	282,456	-	Daily, Monthly	Daily, 30 days
	$ 74,041,965	$ 7,042,503		

(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 $939,226, 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 two to five 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 $566,215, 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.

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, 2018, consist of the following:

Land and land improvements	$ 100,746,263
Buildings and building improvements	186,112,755
Leasehold and tenant improvements	34,614,275
Furniture, fixtures and equipment	22,993,611
Construction in progress	22,560,358
	367,027,262
Less accumulated depreciation and amortization	28,409,569
	338,617,693
Land held for sale	5,923,743
	$ 344,541,436

Investments in real estate, leasing and theater operations with a net book value of $338,617,693 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 earnings and grow the assets available for distribution over time, the Foundation determined that raw land, with a carrying value of $5,923,743, should be sold and the proceeds used to purchase additional investments.

Future minimum lease income under noncancelable operating leases at December 31, 2018, is as follows:

Years ending December 31:	
2019	$ 9,154,428
2020	8,684,921
2021	8,011,944
2022	5,985,180
2023	4,391,574
Thereafter	11,569,787
	$ 47,797,834

Note 6. Split-Interest Agreements

At December 31, 2018, the Foundation has recorded $687,133 in fair value of charitable gift annuities and $950,609 in fair value of charitable remainder unitrust as assets (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 and beneficiaries under charitable remainder unitrust. Liabilities representing the amounts owed to annuitants under a charitable gift annuity totaled $104,663 as of December 31, 2018. Amounts owed to beneficiaries under a charitable remainder unitrust totaled $291,270 at December 31, 2018.

Beneficial interest in perpetual trusts: The Foundation is the beneficiary of four 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 10% to 100%. 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, 2018, consist of the following:

Leasehold and tenant improvements	$ 1,330,569
Furniture and fixtures	244,838
Equipment	337,748
Software	1,090,679
Construction in progress	111,550
	3,115,384
Less accumulated depreciation	2,149,112
Headquarters and equipment, net	$ 966,272

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.

Note 9. Grants and Scholarships Payable

Grants and scholarships at December 31, 2018, are expected to be paid as follows:

Years ending December 31:		
2019	$	4,413,602
2020		2,101,375
2021		967,875
		7,482,852
Less unamortized discount (4%)		267,039
	$	7,215,813

Conditional grant commitments are recognized when the conditions on which they depend are substantially met. At December 31, 2018, the Foundation has conditional grant commitments of $3,753,687. 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, 2018, consists of the following:

Note payable to a financial institution; collateralized by land, buildings and leases; bearing interest at LIBOR plus 2.45%; monthly principal payments of $21,500 plus interest, with a final balloon payment due at maturity in July 2019	$	2,882,000
Note payable to a financial institution; collateralized by land, buildings and leases; bearing interest at LIBOR plus 2.45%; monthly principal payments of $4,479 plus interest, with a final balloon payment due at maturity in June 2020		891,354
Note payable to a financial institution; collateralized by rents, land and buildings; bearing interest at LIBOR plus 2.35%; monthly payments of principal totaling $31,000 plus interest through maturity in September 2023; guaranteed by Cap Co. limited to 25.00% of outstanding principal balance plus unpaid interest		16,892,568
Note payable to a financial institution; collateralized by land, buildings and leases; bearing interest at prime plus 1.00%; monthly payments of principal and interest totaling $20,000 through maturity in May 2032; guaranteed by Cap Co. limited to 20.00% of the outstanding principal balance		2,300,756
Note payable to a financial institution; collateralized by land, buildings, fixtures and leases; bearing interest at 4.25%; monthly payments of principal and interest totaling $53,525 through maturity in June 2035		7,577,614
Notes payable to financial institutions; collateralized by land and buildings; bearing interest at LIBOR plus applicable margin (2.40%, 2.60% or 2.80%, based on debt service coverage ratio); monthly principal payments of $258,000 plus interest with a final balloon payment due at maturity in December 2024		59,687,500
Unsecured note payable to individual; with no interest; quarterly principal payments of $6,000 through maturity in March 2025		148,011
		90,379,803
Less deferred financing cost, net of accumulated amortization of $212,407		938,406
Total long-term debt	$	89,441,397

Note 10. Long-Term Debt (Continued)

Principal payments required on long-term debt at December 31, 2018, are as follows:

Years ending December 31:	
2019	$ 6,867,427
2020	4,807,158
2021	4,011,015
2022	4,053,592
2023	4,098,220
Thereafter	66,542,391
	$ 90,379,803

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, Enterprises entered into a $76,500,000 syndicated term loan to refinance existing theater real property debt of $48,000,000, with $14,500,000 available on the term loan as of December 31, 2018. The agreement matures in December 2024. 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. The revolving line of credit was reduced to $10,000,000 subsequent to December 31, 2018. At December 31, 2018, no amounts had been drawn on the line of credit.

Enterprises has financial loan covenants with certain banks that require, among other things, maintenance of unrestricted cash above $25,000,000, restrictions on distributions paid and other financial ratios. With the reduction of the revolving line of credit, the requirement to maintain unrestricted cash above $25,000,000 was reduced to $10,000,000.

Note 11. Commitments and Contingent Liabilities

The Foundation's headquarters lease commenced in June 2011 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. In addition, the Foundation leases other equipment under noncancelable operating leases through 2023.

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 2022 and a corporate office through 2024.

Note 11. Commitment and Contingent Liabilities (Continued)

Future minimum lease payments under these noncancelable operating leases at December 31, 2018, are as follows:

Years ending December 31:	
2019	$ 1,310,914
2020	1,317,924
2021	957,769
2022	769,631
2023	561,216
Thereafter	302,017
	$ 5,219,471

Enterprises has commitments for future investment in its existing real estate investments that are paid upon a capital call from the investment fund or partnership. Future commitments at December 31, 2018, totaled $11,143,139.

Enterprises is involved in claims and litigation in the normal course of business. Management believes the applicable insurance coverage is adequate to cover costs of settlement and defense of such claims and litigation.

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, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds	$ -	$ 557,412,272	$ 557,412,272
Nonendowed funds:			
Corporate advised	329,171	-	329,171
Designated	8,655,918	2,618,185	11,274,103
Donor advised	82,875,286	184,029	83,059,315
Field of interest	20,454,698	1,463,919	21,918,617
Operating	2,109,352	-	2,109,352
Scholarship	6,659,269	688,164	7,347,433
Supporting organization	85,449,283	6,763,558	92,212,841
Undesignated	8,220,586	-	8,220,586
Total nonendowed funds	214,753,563	11,717,855	226,471,418
Beneficial interest in the Trust	-	2,741,559	2,741,559
Beneficial interest in perpetual trusts	-	21,719,306	21,719,306
	$ 214,753,563	$ 593,590,992	$ 808,344,555

Note 12. Total Net Asset Composition (Continued)

The Foundation incurred expenses that satisfied the restricted purposes of net assets totaling $21,141,093 for the Foundation and $100,005,269 for Enterprises for the year ended December 31, 2018. 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, 2018.

As of December 31, 2018, the endowment net assets composition by type is comprised of the following:

	With Donor Restrictions
Endowment funds:	
Designated	$ 27,629,024
Donor advised	3,672,261
Field of interest	14,871,852
Scholarship	35,900,302
Supporting organization	474,170,650
Undesignated	1,168,183
Total donor-restricted endowment funds	$ 557,412,272

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).

The organization had the following changes in endowment net assets as of December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at January 1, 2018	$ 548,661	$ 573,320,821	$ 573,869,482
Distributions from Enterprises to Charitable Fund	-	8,172,493	8,172,493
Contributions	-	585,191	585,191
Other adjustments	-	29,780	29,780
Net investment earnings with donor restrictions	-	(6,147,868)	(6,147,868)
Amounts appropriated for expenditures	(548,661)	(18,548,145)	(19,096,806)
Endowment net assets at December 31, 2018	$ -	$ 557,412,272	$ 557,412,272

Note 13. Endowments (Continued)

Funds with deficiencies: The Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of the initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures under law.

The Foundation has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The current policy restricts spending from funds that are underwater two times the annual spend rate.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions and totaled $3,076,376 at December 31, 2018 as follows:

Original gift (corpus) amount	$ 30,844,687
Fair value at year-end	27,768,311
Deficiency at December 31, 2018	$ 3,076,376

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 4% 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.

Note 14. Functional Expenses

The following reflects the classification of expenses for the Foundation and the Charitable Fund by both the underlying nature of the expense and function, as of December 31, 2018. An individual expense is allocated to the underlying activity through which it was incurred. The Foundation has certain expenses that must be allocated on a reasonable basis, which has been consistently applied: depreciation, rent and occupancy expenses are allocated based on a square footage. Salaries of the Foundation are allocated based on a time study of where the efforts were made. The remaining expenses of the Foundation are allocated based on the function of the division or the underlying funds within a division. The Foundation and the Charitable Fund have excluded federal taxes totaling $531,033 from functional expenses below.

	Foundation and Charitable Fund				
	Program activities				
	Grants and Scholarships	Program Services	Fundraising	General and Administrative	Total
Personnel expenses	$ -	$ 2,009,597	$ 391,704	$ 3,198,309	$ 5,599,610
Depreciation and amortization	-	73,523	11,770	199,173	284,466
Occupancy	-	624,668	75,954	666,374	1,366,996
Other	-	772,395	123,818	101,683	997,896
Office expenses	-	91,121	9,609	538,123	638,853
Professional services	-	1,284,490	17,357	1,392,964	2,694,811
Equipment and technology	-	138,247	41,040	442,896	622,183
Dues and staff development	-	11,543	828	383,359	395,730
Grants and scholarships	41,696,698	-	-	-	41,696,698
Total	$ 41,696,698	$ 5,005,584	$ 672,080	$ 6,922,881	$ 54,297,243

The following reflects the classification of expenses for Enterprises by both the underlying nature of the expense and function, as of December 31, 2018. An individual expense is allocated to the underlying activity through which it was incurred. Bank and credit card fees, payroll benefits, depreciation, rent and occupancy for Enterprises have been allocated among the divisions and supporting services benefited. Enterprises has excluded income taxes totaling $1,068,369 from functional expenses below.

	Enterprises		
	Theater and Real Estate Operations	General and Administrative	Total
Cost of sales	$ 35,056,256	$ -	$ 35,056,256
Personnel expenses	12,896,657	7,642,072	20,538,729
Depreciation and amortization	12,769,539	394,009	13,163,548
Occupancy	9,715,007	548,005	10,263,012
Other	4,747,423	1,358,501	6,105,924
Office expenses	3,456,001	1,738,829	5,194,830
Professional services	751,928	1,212,951	1,964,879
Equipment and technology	600,344	820,494	1,420,838
Interest expense	3,900,596	120,354	4,020,950
Loss on disposals	495,356	27,057	522,413
Dues and subscriptions	233,003	452,518	685,521
Total	$ 84,622,110	$ 14,314,790	$ 98,936,900

Note 15. 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 one year from their initial date of employment. The percentage contributed by the Foundation is set annually and may range from 0% to 25% 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 (IRS) 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 IRS. Enterprises will match 50% of the employee's elective contributions up to 6%. During 2018, Enterprises elected to make a safe harbor nonelective contribution on behalf of each eligible employee in an amount equal to 3% 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 0% after one year of service, 50% after two years of service and 100% after three years of service.

Note 16. 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, 2018, 49.55% of net contributions receivable are due from two donors and 22.00% of net grants and scholarships payable are due to three grantees.

Real estate operations (see Note 5) are subject to a number of risks and uncertainties due to its concentration in the real estate industries, 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.

Note 16. Concentrations of Credit Risk (Continued)

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, competition in attracting patrons, licensing motion pictures and low barriers to entry by national, regional and independent movie theaters.

Note 17. Derivative Obligations

Enterprises uses derivatives for risk management purposes and, accordingly, does not use derivatives for any speculative purposes. The outstanding notional amount of $43,316,667 at December 31, 2018 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, 2018 was an asset totaling $1,052,643 (Note 4).

The change in fair value of the interest rate swaps, which totaled $326,712 at December 31, 2018, is recognized as an unrealized gain on interest rate swaps and included in the consolidated statement of activities.

Note 18. Liquidity and Availability

The Foundation regularly monitors liquidity required to meet its operating needs and other commitments, while also striving to maximize the return on investment of its funds not required for annual operations. As part of the Foundation’s liquidity management, it structures its financial assets to be available as its general expenditures, liabilities and other obligations become due. For the purpose of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing mission-related activities as well as the conduct of services performed to support those activities.

As of December 31, 2018, the following financial assets are available to meet general expenditures for the 2019 fiscal year:

Cash and cash equivalents	$ 14,856,510
Accounts receivable and other receivables, net	422,877
Contributions receivable, net	4,527,998
Notes receivable	860,768
	20,668,153
Less:	
Amounts Board reserved	6,010,701
Amounts not due within one year or subject to donor restriction	3,598,698
Amounts subject to donor restriction	1,795,445
Financial assets available to meet cash needs for general expenditures within one year	$ 9,263,309

In addition to these resources, the Board has chosen to charge administrative fees to all funds based on the funds’ monthly asset value. The administrative fee rates vary by type of fund. These fees fund the Foundation’s general operations. For 2018, administrative fees of $5,114,446 were earned. In addition, the Board has designated certain funds as reserves available for operational purposes, with Board approval. The amount of the reserves at December 31, 2018 is $6,010,701.

Note 18. Liquidity and Availability (Continued)

The Foundation manages its cash available for grantmaking purposes by examining the fund for purpose and time restrictions. Funds with purpose and time restrictions are not considered available for general expenditures. Endowment funds consist of donor-restricted endowments. As described in Note 13, the Foundation's endowments are subject to an annual spending rate. During 2018, the spending rate is 4%. A spendable amount estimated to be $14,001,226 will be made available for grantmaking from these endowments during 2019.

Note 19. Trust Distributions/Dividends

During 2018, Enterprises paid a distribution/dividend of $20,000,000 to the Santikos Foundation. In addition, $1,350,000 was distributed to the Santikos Foundation for its federal tax payments related to unrelated business income. These amounts have been eliminated from the consolidated statement of activities.

Note 20. Impairment of Long-Lived Assets

During 2018, Enterprises evaluated the value of its long-lived assets and land held for sale. Based on this evaluation, Enterprises determined that an undeveloped land parcel, classified as land held for sale, was impaired and wrote the asset down by $796,500 to its estimated fair value of $1,395,000. The estimated fair value was based on a sale and purchase agreement. Further, Enterprises determined its investment in a limited partnership is impaired and recognized an impairment of $860,363 (Note 4).

Note 21. Subsequent Events

The following events occurred subsequent to December 31, 2018:

- The Santikos Foundation received its 2019 distribution of $11,000,000 and $167,000 for taxes.
- Enterprises real estate investment capital calls totaling $3,134,307 were paid.
- Enterprises began constructing a new theater during 2018 with a construction commitment of $35,000,000. At December 31, 2018, $18,781,710 in costs have been incurred, which approximates 55% completion. The theater opened for operations in May 2019.
- Subsequent to December 31, 2018, Enterprises purchased a three-year interest rate cap to mitigate variable interest rate risk. This instrument caps the variable portion of the interest rate at 3% for the notional amounts of $8,250,000 in year 1, $16,500,000 in year 2 and $25,000,000 in year 3. The cost of the cap is $88,094 and will be amortized over three years.

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 as of and for the year ended December 31, 2018, and have issued our report thereon, which contains an unmodified opinion on these consolidated financial statements (see page 1). Our report contains a reference to the adoption of Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated 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
August 20, 2019

San Antonio Area Foundation

Consolidating Statement of Financial Position
December 31, 2018

	San Antonio Area Foundation	John L. Santikos Charitable Foundation: Santikos Enterprises, LLC	John L. Santikos Charitable Foundation: Charitable Fund	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 20,397,095	$ 75,352,071	$ 40,843	$ -	$ 95,790,009
Receivables:					
Accounts receivable and other receivables, net	376,908	2,322,438	599,367	(553,398)	2,745,315
Investment trade pending receivable	13,049,595	-	-	-	13,049,595
Contributions, net	4,527,998	-	-	-	4,527,998
Notes receivable	667,050	-	193,718	-	860,768
Total receivables	18,621,551	2,322,438	793,085	(553,398)	21,183,676
Investments:					
Cash equivalent funds and securities	269,721,594	-	17,463,711	-	287,185,305
Limited liability companies and partnerships	7,878,662	41,091,165	-	-	48,969,827
Oil and gas interests	25,422,447	-	-	-	25,422,447
Real estate	971,603	-	-	-	971,603
Real estate, leasing and theater operations, net	-	344,541,436	-	-	344,541,436
Total investments	303,994,306	385,632,601	17,463,711	-	707,090,618
Prepaid expenses and other assets	305,332	4,363,617	818,967	-	5,487,916
Beneficial interest in John L. Santikos Living Trust	-	-	2,741,559	-	2,741,559
Beneficial interest in perpetual trusts	21,719,306	-	-	-	21,719,306
Headquarters and equipment, net	966,272	-	-	-	966,272
Interest rate swaps	-	1,052,643	-	-	1,052,643
Goodwill	-	89,279,798	-	-	89,279,798
Collections (Note 8)	-	-	-	-	-
Total assets	$ 366,003,862	$ 558,003,168	$ 21,858,165	$ (553,398)	$ 945,311,797
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	$ 1,345,193	$ 18,023,428	$ -	$ -	$ 19,368,621
Grants and scholarships payable, net	5,623,868	-	2,145,343	(553,398)	7,215,813
Deferred revenue	-	3,743,455	-	-	3,743,455
Charitable gift annuities payable	395,933	-	-	-	395,933
Other liabilities	196,527	531,707	-	-	728,234
Long-term debt	148,011	89,293,386	-	-	89,441,397
Charitable funds held for the benefit of other organizations	16,073,789	-	-	-	16,073,789
Total liabilities	23,783,321	111,591,976	2,145,343	(553,398)	136,967,242
Net assets:					
Without donor restrictions:					
Designated for reserve fund	6,010,701	-	-	-	6,010,701
Donor advised and other designated funds	206,532,977	-	-	-	206,532,977
Undesignated funds	2,209,885	-	-	-	2,209,885
Member’s equity in Santikos Enterprises, LLC	-	446,411,192	-	(446,411,192)	-
Total net assets without donor restrictions and member’s equity	214,753,563	446,411,192	-	(446,411,192)	214,753,563
With donor restrictions	127,466,978	-	19,712,822	446,411,192	593,590,992
Total net assets	342,220,541	446,411,192	19,712,822	-	808,344,555
Total liabilities and net assets	$ 366,003,862	$ 558,003,168	$ 21,858,165	$ (553,398)	$ 945,311,797

San Antonio Area Foundation

Consolidating Statement of Activities
Year Ended December 31, 2018

	San Antonio Area Foundation				John L. Santikos Charitable Foundation				
	Without Donor Restrictions	With Donor Restrictions	Total	Enterprises	Charitable Fund Without Donor Restrictions	Charitable Fund With Donor Restrictions	Total	Eliminations	Consolidated Total
Revenues and support:									
Foundation:									
Contributions and grants	$ 36,865,065	$ 7,059,171	$ 43,924,236	$ -	$ -	$ -	$ -	$ (2,276,000)	$ 41,648,236
Investment income, net	7,183,073	2,130,048	9,313,121	-	-	21,571,318	21,571,318	(21,350,000)	9,534,439
Net realized and unrealized gains (losses) on investments	4,999,567	(8,495,810)	(3,496,243)	-	-	-	-	-	(3,496,243)
Mineral interest revenue, net	4,793,948	546,917	5,340,865	-	-	-	-	-	5,340,865
Change in value of perpetual trusts	70,846	(12,861,950)	(12,791,104)	-	-	-	-	-	(12,791,104)
Change in value of John L. Santikos Living Trust	-	-	-	-	-	176,993	176,993	-	176,993
Change in value of gift annuities	(101,566)	-	(101,566)	-	-	-	-	-	(101,566)
Program revenue	126,899	-	126,899	-	-	-	-	-	126,899
Other income	119,765	17,403	137,168	-	-	-	-	-	137,168
Transfers	2,269,680	-	2,269,680	-	-	-	-	(2,269,680)	-
Net assets released from restriction	7,194,946	(7,194,946)	-	-	13,946,147	(13,946,147)	-	-	-
	63,522,223	(18,799,167)	44,723,056	-	13,946,147	7,802,164	21,748,311	(25,895,680)	40,575,687
Enterprises:									
Theater box office, concessions and other theater revenue	-	-	-	90,201,825	-	-	-	-	90,201,825
Rental income	-	-	-	14,777,844	-	-	-	-	14,777,844
Interest income	-	-	-	632,965	-	-	-	-	632,965
Investment income, net	-	-	-	2,238,415	-	-	-	-	2,238,415
Change in net unrealized gains on interest rate swaps	-	-	-	326,712	-	-	-	-	326,712
	-	-	-	108,177,761	-	-	-	-	108,177,761
Total revenues and support	63,522,223	(18,799,167)	44,723,056	108,177,761	13,946,147	7,802,164	21,748,311	(25,895,680)	148,753,448

(Continued)

San Antonio Area Foundation

Consolidating Statement of Activities (Continued)
Year Ended December 31, 2018

	San Antonio Area Foundation			John L. Santikos Charitable Foundation					
	Without Donor Restrictions	With Donor Restrictions	Total	Enterprises	Charitable Fund Without Donor Restrictions	Charitable Fund With Donor Restrictions	Total	Eliminations	Consolidated Total
Expenses:									
Foundation:									
Grants and scholarships	$ 32,872,787	$ -	$ 32,872,787	$ -	$ 11,099,911	$ -	$ 11,099,911	$ (2,276,000)	$ 41,696,698
Program services	5,005,584	-	5,005,584	-	-	-	-	-	5,005,584
Fundraising expense	672,080	-	672,080	-	-	-	-	-	672,080
General and administrative	6,508,447	-	6,508,447	-	2,684,114	-	2,684,114	(2,269,680)	6,922,881
Federal taxes	-	-	-	-	531,033	-	531,033	-	531,033
Transfers	(179,750)	-	(179,750)	-	179,750	-	179,750	-	-
	44,879,148	-	44,879,148	-	14,494,808	-	14,494,808	(4,545,680)	54,828,276
Enterprises:									
Theater and real estate operations	-	-	-	84,622,110	-	-	-	-	84,622,110
General and administrative	-	-	-	14,314,790	-	-	-	-	14,314,790
Income tax	-	-	-	1,068,369	-	-	-	-	1,068,369
	-	-	-	100,005,269	-	-	-	-	100,005,269
Total expenses	44,879,148	-	44,879,148	100,005,269	14,494,808	-	14,494,808	(4,545,680)	154,833,545
Change in net assets	18,643,075	(18,799,167)	(156,092)	8,172,492	(548,661)	7,802,164	7,253,503	(21,350,000)	(6,080,097)
Net assets at beginning of year	196,110,488	146,266,145	342,376,633	459,588,700	548,661	11,910,658	12,459,319	-	814,424,652
Changes to nets assets:									
Contribution to the Foundation	-	-	-	(21,350,000)	-	-	-	21,350,000	-
Net assets at end of year	$ 214,753,563	$ 127,466,978	$ 342,220,541	$ 446,411,192	$ -	$ 19,712,822	$ 19,712,822	$ -	$ 808,344,555