San Antonio Area Foundation

Consolidated Statement of Financial Position
and Supplementary Information
December 31, 2016

THE POWER OF BEING UNDERSTOOD
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Independent Auditor's Report

Board of Directors
San Antonio Area Foundation
San Antonio, Texas

Report on the Financial Statement
We have audited the accompanying consolidated statement of financial position of the San Antonio Area Foundation (the Foundation), as of December 31, 2016, and the related notes (the financial statement).

Management's Responsibility for the Financial Statement
Management is responsible for the preparation and fair presentation of this financial statement 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 financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on the financial statement 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 financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 financial statement 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 financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the San Antonio Area Foundation as of December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Oklahoma City, Oklahoma
November 30, 2017

THE POWER OF BEING UNDERSTOOD
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San Antonio Area Foundation

Consolidated Statement of Financial Position
December 31, 2016

Assets	
Cash and cash equivalents	$ 33,446,253
Receivables:	
Contributions receivable, net	3,152,848
Notes receivable	801,529
Other receivables, net	749,419
Total receivables	4,703,796
Investments:	
Cash equivalent funds and securities	257,309,285
Limited liability companies and partnerships	19,242,716
Oil and gas interests	6,623,405
Real estate and leasing operations, net	224,864,765
Total investments	508,040,171
Prepaid expenses and other assets	3,756,015
Beneficial interest in John L. Santikos trust	274,377,523
Beneficial interest in perpetual trusts	24,785,251
Headquarters and equipment, net	1,090,970
Collections (Note 8)	-
Total assets	$ 850,199,979
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses	$ 5,340,032
Grants and scholarships payable, net	12,348,206
Derivative - interest rate swap	40,887
Charitable gift annuities payable	194,034
Other liabilities	1,960,240
Long-term debt	41,329,638
Charitable funds held for the benefit of other organizations	15,215,661
Total liabilities	76,428,698
Net assets:	
Unrestricted	
Designated for reserve fund	774,658
Donor advised and other designated funds	158,369,407
Undesignated	10,258,973
Total unrestricted net assets	169,403,038
Temporarily restricted net assets	563,282,471
Permanently restricted net assets	41,085,772
Total net assets	773,771,281
Total liabilities and net assets	$ 850,199,979

See notes to consolidated statement of financial position.

Note 1. Organization and Significant Accounting Policies

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

The accompanying consolidated financial statement includes all funds held by or created for the benefit of the Trust, the Corporation, and its affiliated organizations. The Trust, the Corporation, and its affiliated 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.

Basis of consolidation: The consolidated financial statement includes the accounts of the Trust (and all trusts created under the Plan); the Corporation; the affiliated organizations, and the various real estate entities. The Corporation has an economic interest in and maintains control, through appointment of a majority of the members of the Board of Directors, of each affiliated organization. The affiliated organizations and the year they were incorporated include:

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

In addition, the Corporation is the sole member of the following non-profit 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 Corporation is also the sole member of Santikos Enterprises, LLC (Enterprises), a Texas non-profit corporation incorporated in 2015. Enterprises is the sole member of Santikos Capital Company, LLC, which was formed to guarantee the debt of Enterprises real estate operations, and eighteen limited liability companies which hold and manage real estate, including:

- Santikos Real Estate Services, LLC
- Santikos Silverado Realty, LLC
- Santikos Embassy Shopping Center, LLC
- Santikos Mayan Shopping Center, LLC
- Santikos Fredericksburg Road Realty, LLC
- Santikos Westlakes Shopping Center, LLC
- Santikos Legacy, LLC
- Santikos Nacogdoches Crossing, LLC
- Santikos Northpointe Shopping Center, LLC
- Santikos Military Crossing Shopping Center, LLC
- Santikos Culebra Warehouse, LLC
- Santikos Raw Land, LLC
- Santikos Silverado Raw Land, LLC
- Santikos Nacogdoches East, LLC
- Santikos 410 Raw Land, LLC
- Santikos Potranco Raw Land, LLC
- Santikos Bender's Landing Theater Realty, LLC
- Santikos Trinity Oaks Theater Realty, LLC

Note 1. Organization and Significant Accounting Policies (Continued)

The Corporation plans to transfer Enterprises and the John L. Santikos trust beneficial interest to the Santikos Foundation on December 31, 2017.

The consolidated entities are collectively referred to as the Foundation throughout the consolidated financial statement. All intercompany transactions and balances have been eliminated in the consolidated financial statement.

Basis of presentation: The Foundation's financial statement has 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 is the 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. All interfund activities have been eliminated in the accompanying consolidated financial statement.

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

Net asset classifications: 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 Directors (the Board) of the Foundation has interpreted TUPMIFA to require the Foundation to exercise prudence in determining whether to spend from or accumulate to donor-restricted endowment funds with a view toward the permanent nature and long-term continuing viability of such funds, rather than the maintenance of the historic dollar value thereof, absent explicit donor stipulations to the contrary.

As a community foundation, in accordance with United States Treasury Regulations, the Foundation possesses variance power. Variance power is the unilateral right 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, by reference to variance power or the Foundation's bylaws or Plan, in gift instruments, the Foundation views its variance power as an explicit expression of donor intent (collectively referenced throughout these financial statements as explicit variance power).

The Board 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 the principal of the gift be retained for a specified period of time (time restriction), and (3) contributions received with a requirement that the principal of the gift be retained permanently (endowment restriction). The Board has determined that the Foundation's variance power applies to all three types of restrictions and that only those funds subject to time restrictions or endowment restrictions constitute endowment funds under TUPMIFA. Therefore, the Foundation classifies all funds, with explicit variance power, subject only to purpose restrictions as unrestricted net assets.

Note 1. Foundation and Significant Accounting Policies (Continued)

Funds with purpose restrictions and without explicit variance power are classified as temporarily restricted. Funds subject to time restrictions are classified as temporarily restricted net assets until the expiration of the time restriction. Because the Board has interpreted the Foundation's variance power to apply to endowment restrictions, funds, including trusts, with explicit variance power, are classified as temporarily restricted net assets, except for amounts appropriated for spending which are classified as unrestricted net assets. Funds with donor-imposed endowment restrictions and without explicit variance power are classified as permanently restricted.

As a result of this interpretation, the Foundation classifies as temporarily restricted net assets (a) the original value of gifts with explicit variance power, donated to the permanent endowment and perpetual trusts created under the Plan, (b) the original value of subsequent gifts, with explicit variance power, to the permanent endowment and perpetual trusts created under the Plan, and (c) accumulations to the permanent endowment and trusts created under the Plan made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Foundation classifies as permanently restricted net assets (a) the original value of gifts, without explicit variance power, donated to the permanent endowment, (b) the original value of subsequent gifts, without explicit variance power, to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Donor-restricted endowment funds, or portions thereof, are classified as temporarily restricted net assets, if the original gift instrument includes explicit variance power, and permanently restricted net assets, if the original gift instrument does not include explicit variance power. Once amounts are appropriated for spending from a donor-restricted endowment fund classified as temporarily restricted, such amounts are classified as unrestricted net assets until spent. Amounts appropriated from donor-restricted endowment funds classified as permanently restricted, are classified as temporarily restricted if there is a donor purpose restriction on the accumulation and unrestricted in the absence of a donor-purpose restriction on the accumulation. In accordance with TUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

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

Note 1. Foundation and Significant Accounting Policies (Continued)

In addition to contributions received with donor-imposed time restrictions or donor-imposed endowment restrictions, the Foundation also classifies its split-interest agreements, excluding charitable gift annuities (unless endowment restricted by the donor), as temporarily restricted due to the implied time restriction on the use of such assets. The Board concluded that split-interest funds, including charitable gift annuities, do not constitute institutional funds as defined by TUPMIFA, therefore, they do not constitute endowment funds. Substantially, all contributions received by the Foundation without a donor-imposed time restriction or a donor-imposed endowment restriction are classified as unrestricted. The Foundation holds sixteen funds at December 31, 2016, which are purpose restricted, and the original gift instruments do not include explicit variance power, which are classified as temporarily (purpose) restricted.

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 establishes an achievable return objective through diversification of investment assets.

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. 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.

The spending policy calculates the amount of money annually appropriated for spending from the Foundation's various endowment funds. The current spending policy is to appropriate an amount equal to 3.75 percent of a moving twelve-quarter average through the calendar year-end 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. Accordingly, over the long term, the Foundation expects the current spending and investment policies to allow its endowment to grow, thereby preserving the overall purchasing power of the endowment assets.

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.

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

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

Note 1. Foundation and Significant Accounting Policies (Continued)

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

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

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

Notes receivable: Notes receivable are carried at cost (face value) net of an allowance for loan losses of $-0- at December 31, 2016. Generally, loans are placed on nonaccrual 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.

Other receivables, net: Other receivables, are stated at cost net of an allowance of approximately $163,000. Other receivables consist primarily of rent receivable from leasing operations.

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

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

Investments in limited liability companies and partnerships: Investments in limited liability companies and partnerships are reported at fair value. Fair value is generally determined by independent appraisal at the time the gift is made, if donated, and revaluations are performed annually by management.

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 affiliated organizations.

Note 1. Foundation and Significant Accounting Policies (Continued)

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

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 the 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 39 years for buildings, 15-20 years for building improvements, the lesser of the useful life or the lease for leasehold improvements, 5-7 years for furniture and fixtures, equipment and software.

Prepaid expenses and other assets: Prepaid expenses and other assets consist of deferred leasing commissions (totaling $2,793,407 net of accumulated amortization of $1,154,139), deferred lease income (totaling $1,740,391), and prepaid expenses (totaling $376,356). Deferred leasing commissions are capitalized and amortized on a straight-line basis over the life of the related lease. Lease income is recognized on a straight-line basis and the deferred lease income (asset) will be recognized in the change in net assets in the period earned.

Beneficial interest in John L. Santikos trust: The beneficial interest is carried at fair value which is based upon the estimated future cash flows (or fair value of assets to be distributed) from the trust. Fair value is estimated by management based on consideration of the assets and liabilities held in the trust (see Note 4). The John L. Santikos trust was established by the donor to facilitate the transfer of his bequest to the Foundation. A significant portion of the bequest was transferred to the Santikos Enterprises, LLC on December 31, 2015 and the assets and liabilities which have not been distributed remain in the beneficial interest. The remaining trust assets and liabilities are currently expected to be distributed on December 31, 2017.

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

Note 1. Foundation and Significant Accounting Policies (Continued)

Headquarters and equipment: Headquarters and equipment are recorded at cost or estimated fair market value at the date of donation, net of accumulated depreciation. 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.

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

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

Accounts payable and accrued expenses: The Foundation records accounts payable and accrued expenses at cost. At December 31, 2016, accounts payable and accrued expenses are primarily comprised of current accounts payable and accrued expense of $1,241,848, accrued payroll and related payroll taxes and withholdings of $397,652, property taxes payable of $3,201,080 and franchise and sales taxes payable of $77,700. In addition, due to immateriality, accounts payable and accrued expenses also includes deferred revenue, including prepaid rent, of $421,752. Deferred revenue will be recognized in the period earned.

Grants and scholarships payable: Grants and scholarships payable represent unconditional amounts awarded, but not paid, to various not-for-profit organizations to assist with funding of general operations or special programs and scholarship 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 dependent upon the occurrence of a specified and uncertain event are not recognized until the conditions on which they depend are substantially met.

Derivative – interest rate swap: The Foundation utilizes interest rate swaps to convert floating rate long-term debt to fixed-rate debt. The swap agreements are accounted for under ASC Topic 815, *Derivatives and Hedging*, which requires that the derivative instrument be recorded in the statement of financial position as either an asset or liability measured at fair value. The outstanding notional amount of the interest rate swap is $21,000,000 and the fair value is a liability of $40,887 at December 31, 2016. The swaps matured March 30, 2017 ($9,000,000) and June 1, 2017 ($12,000,000).

Note 1. Foundation and Significant Accounting Policies (Continued)

Charitable gift annuities payable: Charitable gift annuities payable represent 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 based on changes in life expectancy and payments made, using the historical discount rate (see Note 6).

Other liabilities: Other liabilities are long-term obligations and are recorded at cost. At December 31, 2016, other liabilities include tenant deposits of $658,297, settlement obligation of $1,038,816, and deferred rental expense of $263,127. The settlement obligation is the result of an agreement between the Office of the Attorney General of the State of Texas and one of the affiliated organizations. The agreement settled all claims and demands concerning the affiliate and the obligation is reduced through expenditures (payments) dedicated to furthering the health and well-being of Texans, through support of charitable causes, programs, and other community benefits that continue the mission of the affiliate.

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 affiliated organizations, as a liability to the specified beneficiary concurrent with its recognition of the assets received. The Foundation maintains variance power and legal ownership over these funds. All asset transfers of this type, and the activity associated with those assets, are recognized as agency transactions (i.e., an increase/decrease in the respective asset category and the charitable funds held for the benefit of other organizations liability). Assets and liabilities related to such funds totaled $14,814,511 at December 31, 2016.

In addition, the Foundation has obligations totaling $401,150 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.

Use of estimates: The preparation of the consolidated statement of financial position in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statement. Actual results could differ from those estimates.

Contingencies: Certain conditions may exist at the date the consolidated financial statement is issued, which 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.

Note 1. Foundation and Significant Accounting Policies (Continued)

If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Foundation's consolidated financial statement. 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, 2016, the Foundation is aware of certain claims and litigation, primarily related to its real estate operations; however, management believes applicable insurance coverage is adequate to cover costs of settlement and defense of such claims and litigation. Management has not identified nor recorded any material loss contingencies.

Concentrations and 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, 2016, net contributions receivable of 95 percent are due from two donors and net grants and scholarships payable of 46 percent are due to four grantees.

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

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

Tax exempt status: The Foundation and its affiliated 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 Internal Revenue Code (the Code) and have been determined not to be private foundations under Section 509(a) of the Code. The Foundation is the sole member of Santikos Enterprises, LLC, and Santikos Enterprises, LLC is the sole member of nineteen limited liability companies, and all are disregarded entities for federal income tax purposes.

Note 1. Foundation and Significant Accounting Policies (Continued)

The ASC provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statement. 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.

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

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2: 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: 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 John L. Santikos trust, beneficial interest in perpetual trusts, derivative – interest rate swap, and charitable funds held for the benefit of others.

New accounting pronouncements adopted: On May 1, 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a consensus of the FASB Emerging Issues Task Force)*. The amendments in this update remove the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU No. 2015-07 is effective for the Foundation's year ending December 31, 2017 and should be applied retrospectively to all periods presented. Earlier application is permitted and the Foundation elected to implement ASU No. 2015-07 for the year ended December 31 2016. Implementation of ASU No. 2015-07 resulted in changes to the Foundation's fair value measurement disclosures (see Note 4) for its investments carried at net asset value.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

On April 7, 2015, the FASB issued ASU No. 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for the Foundation's year ending December 31, 2016. Implementation of ASU 2015-03 modified the classification of debt issuance costs in the consolidated statement of financial position and related debt disclosures (see Note 10).

On March 10, 2016, the FASB issued ASU No. 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*. This guidance clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815, does not, in and of itself, require dedesignation of that hedging relationships provided that all other hedge accounting criteria continue to be met. ASU 2016-05 is effective for the Foundation's year-ending December 31, 2018 and early adoption is permitted. The Foundation elected to early implement ASU 2016-05 for the year ended December 31, 2016. Implementation of ASU 2016-05 did not have a material effect on the consolidated financial statement or related disclosures.

Recent accounting pronouncements issued: 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 2017-12 is effective for the Foundation's year ending December 31, 2020. Earlier application is permitted. The Foundation is currently evaluating the effect implementation of ASU No. 2017-12 will have on its financial statement.

On January 12, 2017, the FASB issued ASU No. 2017-02, *Not-for-Profit Entities – Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*. These amendments clarify when a not-for-profit entity that is a general partner or limited partner should consolidate a for-profit limited partnership or similar legal entity once the amendments in ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, become effective. The amendments maintain how not-for-profit general partners currently apply the consolidation guidance and when not-for-profit limited partners should consolidate a limited partner. The Foundation is required to adopt ASU 2017-02 upon adoption of the amendments in ASU 2015-02 (below) and should apply the same transition method elected for the application of ASU 2015-02. The Foundation is currently evaluating the effect implementation of ASU No. 2017-02 will have on its financial statement.

On August 18, 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this update change presentation and disclosure requirements for not-for profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These amendments include qualitative and quantitative requirements in the following areas: (1) net asset classes, (2) investment return, (3) expenses,(4) liquidity and availability of resources, and (5) presentation of operating cash flows. ASU No. 2016-14 is effective for the Foundation's year ending December 31, 2019. Earlier application is permitted. The Foundation is currently evaluating the effect implementation of ASU No. 2016-14 will have on its financial statement.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

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

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. The Foundation is currently evaluating the effect implementation of ASU No. 2016-01 will have on its financial statement.

On February 18, 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which amends the guidance that reporting entities apply when evaluating whether certain legal entities should be consolidated. ASU No 2015-02 is effective for the Foundation's year ending December 31, 2017. Earlier application is permitted. The Foundation is currently evaluating the effect implementation of ASU No, 2015-02 will have on its financial statement.

On May 28, 2014, the FASB issues 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 subsequent to the Foundation's year ending December 31, 2016, is permitted. The Foundation is currently evaluating the effect implementation of ASU No. 2014-09 will have on its financial statement.

Subsequent events: The Foundation has evaluated subsequent events through November 30, 2017, the date the consolidated financial statement was available to be issued and determined there were no material subsequent events requiring recognition. Subsequent events requiring disclosure are summarized at Note 15.

Note 2. Contributions Receivable

Unconditional contributions receivable, including amounts due under pledge and grant agreements, are expected to be collected as follows at December 31, 2016:

Contributions receivable in:		
Less than one year	$	809,988
One year to five years		1,881,334
Over five years		462,000
		3,153,322
Less unamortized discount (1.44%)		474
	$	3,152,848

No amounts have been recognized in the consolidated financial statement for conditional promises to give because the conditions on which they depend have not been substantially met. Conditional promises to give total approximately $5,776,000 at December 31, 2016, 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 consist of the following at December 31, 2016:

Note receivable with fixed interest at 8 percent, maturing March 1, 2028, with principal and interest payments of $881 due monthly. The note is collateralized by real estate.	$	77,860
Seven notes receivable with fixed interest ranging from 8.5 to 13.5 percent, maturing between April 2, 2019 and January 1, 2029 with principal and interest payments due monthly. The notes are collateralized by real estate.		169,969
Note receivable with fixed interest at 4 percent, maturing July 19, 2017, with principal and interest payments of $7,000 due monthly. The note is secured by a life insurance policy of the borrower.		53,700
Note receivable with fixed interest at 7 percent, maturing November 1, 2017, with interest due quarterly and principal due at maturity. The note is secured by a vendor's lien and superior titled retained in lender real estate deed.		500,000
Total	$	801,529

Note 3. Notes Receivable (Continued)

The following is a summary of loans receivable by contractual maturity at December 31, 2016:

Due in one year or less	$	640,829
Due in one year and less than five years		91,039
Due in more than five years		69,661
	$	801,529

The Foundation has not recorded an allowance for loan loss, as they believe all notes receivable to be fully collectible.

Note 4. Fair Value Measurements and Disclosures

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

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

Cash and cash equivalents, notes receivable, other receivables, and prepaid expenses and other assets: The assets' carrying amounts approximate fair value due to their short maturity or are immaterial to the financial statements.

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.

Note 4. Fair Value Measurements and Disclosures (Continued)

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

Direct lending funds, common funds, and other alternative investments are carried at fair value which is based on the net asset value per share (NAV) 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 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) valuation technique or the market approach. In some cases independent appraisals are obtained and then discounted to fair value by the Foundation for lack of marketability, minority interest, and/or market risk and in certain circumstances, fair values are based on comparison to similar assets at the measurement date and/or identical assets as of a different measurement date. Due to the significant unobservable inputs required to estimate the fair value of these interests, the Foundation's investments in limited liability companies and partnerships are all classified as Level 3 within the hierarchy. Investments in this category are generally illiquid and non-redeemable except in certain circumstances. Investments in this category have unfunded commitments totaling $2,000,000 at December 31, 2016.

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

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

Note 4. Fair Value Measurements and Disclosures (Continued)

Beneficial interests in John L. Santikos trust: Management determined the fair value of the beneficial interest using a combination of the income approach (for real property) and market approach (for certain theater operations). Due to the significant unobservable inputs required to estimate the underlying assets fair values, the Foundation's beneficial interest is classified as Level 3 in the hierarchy.

Beneficial interests in perpetual trusts: Fair value is based on the fair market value of the underlying trust assets 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.

Accounts payable and other accrued expenses and other liabilities: The liabilities' carrying amounts approximate fair value due to their short maturity or are immaterial to the financial statement.

Grants and scholarships payable, net: The carrying amount of the liability is based on the discounted value of the expected future cash distributions, which approximates fair value.

Derivative – interest rate swap: The fair value measurement is based on the expected cash flows over the life of the trade and were estimated using the closing mid-market rate/price as provided by reputable pricing services. Due to the observable nature of the key inputs, the derivative is classified as Level 2 in the hierarchy.

Charitable gift annuities payable: The liability's fair value is determined by discounting the future cash flows at rates that could currently be negotiated by the Foundation for borrowings of similar amounts. The carrying value approximates fair value.

Long-term debt: The liability's carrying amount approximates fair value due to the short maturities of a substantial majority of the debt and consideration of current rates which could be negotiated on new borrowings.

Charitable funds held for the benefit of other organizations: The liability's fair value is determined using the income approach (expected future cash outflows). 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 within the hierarchy for investments in cash equivalent funds and securities (as discussed above). The related and associated liability is classified as Level 3 in the hierarchy, as there is no market for a similar liability and principal inputs (i.e., fair value of assets in the portfolio and management's allocation for shares in the pool) are unobservable and significant to the overall fair value measurement.

Note 4. Fair Value Measurements and Disclosures (Continued)

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, 2016, and by level within the fair value measurement hierarchy. The Foundation has no assets or liabilities carried at fair value on a non-recurring basis at December 31, 2016.

	Total	Level 1	Level 2	Level 3
Assets:				
Investments in cash equivalent funds and securities:				
Cash and cash equivalents	$ 21,986,345	$ 21,986,345	$ -	$ -
Certificates of deposit	1,400,621	-	1,400,621	-
Common stock	50,596,316	50,576,522	19,794	-
Corporate securities - preferred	9,723	9,723	-	-
Mutual funds	127,028,958	127,028,958	-	-
Corporate obligations	6,231,854	3,850,903	2,380,951	-
U.S. government agency obligations	3,104,838	2,955,117	149,721	-
Mortgage backed securities	1,197,575	-	1,197,575	-
Real estate investment trusts	10,997	10,997	-	-
Investments held at net asset value[a]	45,742,058	-	-	-
Total investments in cash equivalent funds and securities	257,309,285	206,418,565	5,148,662	-
Investments in limited liability companies and partnerships	19,242,716	-	-	19,242,716
Investments in oil and gas interests	6,623,405	-	-	6,623,405
Beneficial interest in John L. Santikos trust	274,377,523	-	-	274,377,523
Beneficial interest in perpetual trusts	24,785,251	-	-	24,785,251
	$ 582,338,180	$ 206,418,565	$ 5,148,662	$ 325,028,895
Liabilities:				
Derivative - interest rate swap	$ 40,887	$ -	$ 40,887	$ -
Charitable funds held for the benefit of other organizations	15,215,661	-	-	15,215,661
	$ 15,256,548	$ -	$ 40,887	$ 15,215,661

(a) 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 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	$ 7,174,502	Market approach Discounted cash flows	Market comparables Discount for lack of marketability (a) Discount for lack of control (a)	N/A 10-15% (12.56%) 10-15% (12.56%)
	12,068,214	Market approach	Market comparables	N/A
Investment in oil and gas interests	6,623,405	Discounted cash flows	Revenue multiple (b) Market risk discount (a)	9.6 (9.6) 0% (0%)
Beneficial interest in John L. Santikos trust	274,377,523	Market approach Discounted cash flows	Market comparables EBITDA multiple (b) Capitalization rate (a)	N/A 3.52 (3.52) 8.5-9.75% (9%)
Beneficial interest in perpetual trusts	24,785,251	Market approach Discounted cash flows	Market comparables Revenue multiple (b) Market risk discount (a)	N/A 9.6 (9.6) 0% (0%)
Liabilities:				
Charitable funds held for the benefit of other organizations	15,215,661	Income approach	Present value of future cash outflows (d) Discount rate (a)	- 0% (0%)

(a) Represents amounts used when the Foundation has determined that market participants would take into account these discounts when pricing the asset or liability.

(b) Represents amounts used when the Foundation has determined that market participants would use such multiples when pricing the investment.

(c) Significant increases or decreases in any of the above unobservable inputs in isolation may result in a significantly lower or higher fair value measurement.

(d) Represents the respective charitable organization's beneficial interest in the Foundation's investment pools (i.e., the underlying assets which are measured at fair value). The unobservable inputs for the charitable organization liability are the same as those for the Foundation's investment pools disclosed throughout Note 4.

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, 2016:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments in cash equivalent funds and securities:				
Direct lending (a)	$ 18,917,073	$ 8,883,891	Quarterly, Illiquid	90 days, N/A
Global Macro (b)	8,537,744	-	Monthly, Semi-annual	2-100 days
Hedged value funds (c)	8,623,832	-	Monthly	15 days
Strategic equity funds (d)	1,061,476	-	Monthly	15 days
Strategic income funds (e)	2,507,424	-	Weekly, Quarterly	5-90 days
Domestic mid - large cap funds (f)	2,943,502	-	Daily	1 day
Domestic small cap funds (g)	435,038	-	Daily	1 day
Taxable fixed income funds (h)	1,151,268	-	Daily	1 day
International and emerging market equity funds (i)	1,564,701	-	Daily	1 day
	$ 45,742,058	$ 8,883,891		

(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 $5,776,226, which allows for quarterly redemptions with 90 days' notice. Investments in all other funds do not provide for redemption. Distributions are received through liquidation of the underlying assets of the fund and expected to be fully distributed by 2022.

(b) Investment in 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 $713,808, which allows for semi-annual redemptions with 100 days' notice and all remaining investment funds are redeemable monthly with 2 to 7 days' notice.

(c) Investment 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 convertible debt.

(d) Investment in a domestic equity strategy that builds a portfolio of stocks which are selected based on certain indexes, including primarily the Russell 3000 Total Return Index.

(e) One of the funds totaling $941,512 invests in U.S. treasury futures and hedged convertible positions and has a weekly 5 percent redemption limitation (with redemptions greater than 50 percent limited to 60 days' notice). The other fund is redeemable quarterly with 90 days' notice and an opportunity yield-oriented commitment to both high quality bonds and other asset classes.

Note 4. Fair Value Measurements and Disclosures (Continued)

(f) Investment strategy focuses on pooling equity investments primarily based in the United States for mid to large sized companies, which are either categorized as growth companies offering strong earnings potential, or companies which are considered by managers to be undervalued in the market, and provide strong value prospects.

(g) Investment strategy focuses on pooling equity investments primarily based in the United States for small sized 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) Investment strategy is to achieve income consistency through investment in income producing investment grade debt securities.

(i) Investment strategy incorporates the pooled assets of small trusts focusing on investment in equity assets in international and emerging markets.

Note 5. Investments in Real Estate and Leasing Operations

The Foundation's investments in real estate and leasing operations consist of the following at December 31, 2016:

Land	$ 66,271,435
Buildings	67,299,087
Building improvements	30,078,679
Leasehold and tenant improvements	6,293,362
Furniture and fixtures	255,743
Equipment	409,627
Software	92,103
Construction in progress	249,359
	170,949,395
Less accumulated depreciation and amortization	10,717,296
	160,232,099
Land held for sale	64,632,666
Investment in real estate and leasing operations, net	$ 224,864,765

Investments in real estate and leasing operations with a net book value of $159,505,359 is held in various real estate entities which are wholly owned by Santikos Enterprises, LLC (and in which the Foundation is the sole member). These real estate entities hold raw land and operate retail and mixed-use centers involved in commercial real estate leasing and operations.

In order to maximize the Foundation's earnings and grow the assets available for distribution over time, the Foundation determined that raw land held by Enterprises and the Corporation, with a carrying value of $64,182,666 and $450,000, respectively, should be sold and the proceeds used to purchase additional investments.

Note 5. Investments in Real Estate and Leasing Operations (Continued)

Future minimum lease income under non-cancelable operating leases are expected as follows at December 31, 2016:

Years ending December 31:	
2017	$ 9,506,934
2018	8,786,545
2019	7,989,599
2020	7,527,775
2021	6,767,664
Thereafter	15,018,765
	$ 55,597,282

Note 6. Split-Interest Agreements

Charitable gift annuities: At December 31, 2016, the Foundation has recorded approximately $831,000 in fair value of charitable gift annuities as an asset (i.e., investment in cash equivalent funds and securities) in its consolidated statement of financial position. Assets received under these agreements are recorded at fair value and in the appropriate net asset category. Liabilities have been established for which the Foundation is obligated to an annuitant under a charitable gift annuity. The discount rates used in the calculations range from 1.2 percent to 2.2 percent. These liabilities totaled approximately $194,000 at December 31, 2016.

Beneficial interest in perpetual trusts: The Foundation is the beneficiary of three perpetual trusts, not created under the Plan, and in which the Foundation is not the trustee. The Foundation's interests in these trusts ranges from 33 percent to 100 percent. The Foundation relies on the fair market values provided by the trustees, except for holdings in oil and gas interests which are not reported at fair value by trustees. Foundation management estimated the fair market value of the oil and gas interests (held in two trusts) using the same methodology that it uses for its other oil and gas interests (see Note 4).

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

Note 7. Headquarters and Equipment

Headquarters and equipment consists of the following at December 31, 2016:

Leasehold and tenant improvements	$ 1,192,265
Furniture and fixtures	225,663
Equipment	385,486
Software	1,018,751
	2,822,165
Less accumulated depreciation	1,731,195
Headquarters and equipment, net	$ 1,090,970

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 are expected to be paid as follows at December 31, 2016:

2017	$ 7,140,166
2018	3,237,509
2019	1,330,172
2020	840,000
2021	33,000
	12,580,847
Less unamortized discount (1.44%)	232,641
	$ 12,348,206

Conditional grant commitments are recognized when the conditions on which they depend are substantially met. At December 31, 2016, the Foundation has conditional grant commitments of approximately $20,747,000. 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 consists of the following at December 31, 2016:

Note payable to a financial institution; collateralized by rents, land and buildings; bearing interest at LIBOR plus 3.25 percent; monthly principal payments of $9,747 plus interest, with a final balloon payment due at maturity in March 2017; guaranteed by Cap Co limited to 50 percent of outstanding principal balance plus unpaid interest; subsequent to December 31, 2016, the loan term was extended for one year and the guarantee by Cap Co was reduced to 25 percent	$ 8,880,638
Note payable to a financial institution; collateralized by rents, land and buildings; bearing interest at LIBOR plus 2.25 percent; monthly payments of principal totaling $19,781 plus interest through maturity in May 2017; plus balloon payment; guaranteed by Cap Co limited to 50 percent of the outstanding principal balance plus unpaid interest; subsequent to December 31, 2016, the loan term was extended for one year and the guarantee by Cap Co was reduced to 25 percent	17,219,564
Note payable to a financial institution; collateralized by land, buildings and leases; bearing interest at LIBOR plus 2.45 percent; monthly principal payments of $21,500 plus interest, with a final balloon payment due at maturity in June 2019; guaranteed by Cap Co limited to 50 percent of outstanding principal balance plus unpaid interest	3,398,000
Note payable to a financial institution; collateralized by land, buildings, and leases; bearing interest at LIBOR plus 2.45 percent; monthly principal payments of $4,479 plus interest, with a final balloon payment due at maturity in July 2020; guaranteed by Cap Co limited to 50 percent of outstanding principal balance plus unpaid interest	998,854
Note payable to a financial institution; collateralized by land, buildings, fixtures and leases; bearing interest at 4.125 percent; monthly payments of principal and interest totaling $18,542 through maturity in May 2032; guaranteed by Cap Co limited to 20 percent of the outstanding principal balance	2,523,885
Note payable to a financial institution; collateralized by land, buildings, fixtures and leases; bearing interest at 4.25 percent; monthly payments of principal and interest totaling $53,525 through maturity in June 2035	8,190,241
Unsecured note payable to individual; bearing interest at 0.87 percent; monthly payments of principal and interest totaling $6,364 through July 2017	44,194
Unsecured note payable to individual; with no interest; quarterly principal payments of $6,000 through maturity in March 2025	196,011
	41,451,387
Less: Debt issuance cost, net of accumulated amortization of $37,500	121,749
Total long-term debt	$ 41,329,638

Note 10. Long-Term Debt (Continued)

Principal payments required on long-term debt are as follows at December 31, 2016:

Years ending December 31:	
2017	$ 1,150,833
2018	26,516,247
2019	3,413,243
2020	1,333,900
2021	517,671
Thereafter	8,519,493
	$ 41,451,387

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, 2016, cash and cash equivalents includes restricted cash of $573,973.

Note 11. Leases

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

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

Affiliated organization headquarters: **(1)** The lease commenced in April 2013 with a term of 87 months. The monthly lease payment begins at $2,579 and increases every twelve months to a maximum of $2,800. **(2)** The lease commenced in February 2012 for 60 months with monthly payments of $1,120. Monthly lease payments increase to $1,200 after completion of the initial term.

Santikos Enterprises, LLC headquarters: The lease commitment was made in October 2016 and the lease commenced in May 2017 and expires October 31, 2024. The monthly lease payment begins at $26,046 and increases periodically over the lease term to a maximum of $30,202.

Future minimum lease payments under these noncancelable operating leases are as follows at December 31, 2016:

Years ending December 31:	
2017	$ 539,032
2018	703,545
2019	772,316
2020	772,362
2021	772,668
Thereafter	1,663,183
	$ 5,223,106

Note 12. Endowments

The composition of endowment funds by type of fund are as follows at December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Designated	$ (18,165)	$ 27,245,916	$ 5,475,072	$ 32,702,823
Donor advised	(325)	3,665,657	-	3,665,332
Field of interest	(113,223)	206,321,457	577,904	206,786,138
Scholarship	(149,021)	30,306,211	10,247,545	40,404,735
Undesignated	-	6,238,613	-	6,238,613
Total donor-restricted endowment funds	$ (280,734)	$ 273,777,854	$ 16,300,521	$ 289,797,641

The Foundation has no board-designated endowment funds at December 31, 2016. In addition to net assets resulting from cash equivalent funds and securities, the Foundation's endowment is also comprised of Santikos Enterprises, LLC net assets (as the donor's gift is restricted for endowment).

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the historic gift value. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets and totaled $280,734 at December 31, 2016. These deficiencies resulted from unfavorable market fluctuations.

Note 13. 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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (280,734)	$ 273,777,854	$ 16,300,521	$ 289,797,641
Non-endowed funds:				
Corporate advised	1,008,589	2,772,000	-	3,780,589
Designated	5,895,444	606,484	-	6,501,928
Designated for reserve	774,658	-	-	774,658
Donor advised	78,906,270	66,193	-	78,972,463
Field of interest	53,745,438	2,331,836	-	56,077,274
Operating	1,717,961	664,508	-	2,382,469
Scholarship	17,376,439	690,656	-	18,067,095
Undesignated	10,258,973	-	-	10,258,973
Non-endowed funds	169,683,772	7,131,677	-	176,815,449
Beneficial interest in John L. Santikos trust	-	282,372,940	-	282,372,940
Beneficial interest in perpetual trusts	-	-	24,785,251	24,785,251
	$ 169,403,038	$ 563,282,471	$ 41,085,772	$ 773,771,281

Note 14. Retirement Plans

The Foundation has adopted a Simplified Employee Pension Plan (SEPP). All full-time employees of the Foundation, excluding Santikos Enterprises, LLC employees and two employees of one affiliated organization, are eligible beneficiaries following their initial date of employment. The percentage contributed by the Foundation is set annually and may range from zero to 25 percent of an employee's gross wages.

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 Santikos Enterprises, LLC employees and two employees of one affiliation organization, may participate in the Retirement Plan. All employee contributions are immediately fully vested. 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.

Santikos Enterprises, LLC (Enterprises) has established a 401(k) plan for all of Enterprise's (and its consolidated entities) eligible employees. All employees age 21 or older which have completed six months of service are eligible to participate. Eligible employees may contribute a percentage of their annual compensation limited to a maximum amount as set by the Internal Revenue Service. Enterprises will match 50 percent of the employee's elective contributions up to 6 percent.

One affiliated organization has established a 401(k) plan for its eligible employees. All employees age 21 or older which have completed six months of service and contribute 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 Internal Revenue Service. The affiliated organization will match a percentage of the employee's elective contributions as determined by the affiliated organization. The employee and employer contributions vest 0 percent after one year of service, 50 percent after two years of service and 100 percent after three years of service.

Note 15. Subsequent Events

In March 2017, the Foundation exercised an automatic one year loan term extension for two loans (see Note 10), thereby extending the maturity of these loans to March 2018 and June 2018, respectively. In addition, the Foundation renegotiated the guarantee to 25 percent from 50 percent.

Subsequent to year end, the Foundation sold certain raw land and a shopping center for total sales proceeds of approximately $32,000,000.

RSM US LLP

Independent Auditor's Report on the Supplementary Information

Board of Directors
San Antonio Area Foundation
San Antonio, Texas

We have audited the consolidated statement of financial position of San Antonio Area Foundation (the Foundation) as of December 31, 2016, and have issued our report thereon, which contains an unmodified opinion on the consolidated statement of financial position. See page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated statement of financial position as a whole. The consolidating statement of financial position is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. This information as of December 31, 2016, has been subjected to the auditing procedures applied in the audit of the consolidated statement of financial position and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated statement of financial position or to the consolidated statement of financial position itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information as of December 31, 2016, is fairly stated in all material respects in relation to the consolidated statement of financial position as a whole.

The consolidating statement of activities for the year ended December 31, 2016, was compiled by us. We did not audit or review that information and, accordingly, we express no opinion or other form of assurance on it.

RSM US LLP

Oklahoma City, Oklahoma
November 30, 2017

San Antonio Area Foundation

Consolidating Statement of Financial Position
December 31, 2016

	San Antonio Area Foundation	Santikos Enterprises, LLC	Eliminations	Consolidated
Assets				
Cash and cash equivalents	$ 11,590,089	$ 21,856,164	$ -	$ 33,446,253
Receivables:				
Contributions receivable, net	3,152,848	-	-	3,152,848
Notes receivable	801,529	-	-	801,529
Other receivables, net	162,441	729,656	(142,678)	749,419
Total receivables	4,116,818	729,656	(142,678)	4,703,796
Investments:				
Cash equivalent funds and securities	257,309,285	-	-	257,309,285
Limited liability companies and partnerships	7,174,502	12,068,214	-	19,242,716
Oil and gas interests	6,623,405	-	-	6,623,405
Real estate and leasing operations, net	1,176,740	223,688,025	-	224,864,765
Total investments	272,283,932	235,756,239	-	508,040,171
Prepaid expenses and other assets	172,829	3,583,186	-	3,756,015
Beneficial interest in John L. Santikos trust	282,372,940	-	(7,995,417)	274,377,523
Beneficial interest in perpetual trusts	24,785,251	-	-	24,785,251
Headquarters and equipment, net	1,090,970		-	1,090,970
Collections (Note 8)	-	-	-	-
Total assets	$ 596,412,829	$ 261,925,245	$ (8,138,095)	$ 850,199,979
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	$ 786,985	$ 4,695,725	$ (142,678)	$ 5,340,032
Grants and scholarships payable, net	12,348,206	-	-	12,348,206
Derivative - interest rate swap	-	40,887	-	40,887
Related party payables	-	7,995,417	(7,995,417)	-
Charitable gift annuities payable	194,034	-	-	194,034
Other liabilities	1,301,943	658,297	-	1,960,240
Long-term debt	240,205	41,089,433	-	41,329,638
Charitable funds held for the benefit of other organizations	15,215,661	-	-	15,215,661
Total liabilities	30,087,034	54,479,759	(8,138,095)	76,428,698
Net assets:				
Unrestricted				
Designated for reserve	774,658	-	-	774,658
Donor advised and other designated funds	158,369,407	-	-	158,369,407
Undesignated funds	10,258,973	-	-	10,258,973
Member's equity in Santikos Enterprises, LLC	-	207,445,486	(207,445,486)	-
Total unrestricted net assets and member's equity	169,403,038	207,445,486	(207,445,486)	169,403,038
Temporarily restricted net assets	355,836,985	-	207,445,486	563,282,471
Permanently restricted net assets	41,085,772	-	-	41,085,772
Total net assets	566,325,795	207,445,486	-	773,771,281
Total liabilities and net assets	$ 596,412,829	$ 261,925,245	$ (8,138,095)	$ 850,199,979

San Antonio Area Foundation

Consolidating Statement of Activities
Year Ended December 31, 2016

	San Antonio Area Foundation			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Santikos Enterprises, LLC
Revenues and support				
Contributions and grants	$ 20,946,731	$ 3,981,149	$ 7,149,854	$ -
Investment income, net	2,621,435	1,020,145	-	8,151
Net realized and unrealized gains	5,407,150	3,372,577	-	-
Rental income	-	-	-	13,709,514
Mineral interest revenue	390,929	325,774	-	-
Change in value of perpetual trusts	-	-	8,135,915	-
Change in value of charitable remainder trusts	-	(55,761)	-	-
Change in value of John L. Santikos trust	-	38,483,033	-	-
Change in value of gift annuities	(128,624)	-	-	-
Program revenue	245,318	-	-	-
Administrative fees	2,517,275	(2,415,292)	-	
Other income	92,499	41,542	-	1,616,015
Net assets released from restriction	25,082,029	(25,082,029)	-	-
Total revenues and support	57,174,742	19,671,138	15,285,769	15,333,680
Expenses and distributions				
Grants and scholarships	50,009,953	-	-	-
Program services	3,706,598			
Fundraising expense	1,625,067	-	-	-
General and administrative	2,923,444	-	-	16,159,682
Total expenses and distributions	58,265,062	-	-	16,159,682
Change in net assets	$ (1,090,320)	$ 19,671,138	$ 15,285,769	$ (826,002)

San Antonio Area Foundation

Consolidating Statement of Activities (Continued)
Year Ended December 31, 2016

	Consolidated			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Contributions and grants	$ 20,946,731	$ 3,981,149	$ 7,149,854	$ 32,077,734
Investment income, net	2,621,435	1,028,296	-	3,649,731
Net realized and unrealized gains	5,407,150	3,372,577	-	8,779,727
Rental income	-	13,709,514	-	13,709,514
Mineral interest revenue	390,929	325,774	-	716,703
Change in value of perpetual trusts	-	-	8,135,915	8,135,915
Change in value of charitable remainder trusts	-	(55,761)	-	(55,761)
Change in value of John L. Santikos trust	-	38,483,033	-	38,483,033
Change in value of gift annuities	(128,624)	-	-	(128,624)
Program revenue	245,318	-	-	245,318
Administrative fees	2,517,275	(2,415,292)	-	101,983
Other income	92,499	1,657,557	-	1,750,056
Net assets released from restriction	25,082,029	(25,082,029)	-	-
Total revenues and support	57,174,742	35,004,818	15,285,769	107,465,329
Expenses and distributions				
Grants and scholarships	50,009,953	-	-	50,009,953
Program services	3,706,598	-	-	3,706,598
Fundraising expense	1,625,067	-	-	1,625,067
General and administrative	19,083,126	-	-	19,083,126
Total expenses and distributions	74,424,744	-	-	74,424,744
Change in net assets	$ (17,250,002)	$ 35,004,818	$ 15,285,769	$ 33,040,585