



**SAN ANGELO AREA FOUNDATION**  
San Angelo, Texas

**CONSOLIDATED FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITORS' REPORT**

December 31, 2017 and 2016

**FOUNDED ON PRINCIPLE**  
**FOCUSED ON SERVICE**

**SAN ANGELO AREA FOUNDATION**  
**San Angelo, Texas**

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December 31, 2017 and 2016

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April 27, 2018

**Board of Directors  
San Angelo Area Foundation  
San Angelo, Texas**

**INDEPENDENT AUDITORS' REPORT**

**Report on the Financial Statements**

We have audited the accompanying consolidated balance sheets of San Angelo Area Foundation (the "Foundation") as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation, as of December 31, 2017 and 2016, and the changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 14 to the financial statements, the 2016 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

*Condley and Company, L.L.P.*

Certified Public Accountants

**SAN ANGELO AREA FOUNDATION**  
**San Angelo, Texas**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2017	2016
<u>ASSETS</u>		
Cash and cash equivalents	\$ 4,130,867	\$ 2,191,354
Contributions receivable	350,000	-
Investments at market	132,356,878	112,059,405
Assets held in trust	1,787,663	1,786,867
Beneficial interest in charitable remainder trusts	7,920,714	6,796,585
Fixed assets, net	2,916,211	2,967,169
Oil and gas interests	71,105	76,237
Land held for sale	259,000	259,000
Other assets	30,789	30,749
	<u>\$ 149,823,227</u>	<u>\$ 126,167,366</u>
<u>LIABILITIES AND NET ASSETS</u>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 5,346	\$ 6,335
Grants payable	41,362	-
Present value of split-interest trust and annuities	1,756,837	1,711,030
Deferred compensation	98,524	65,480
Funds held as agency endowments	36,879,134	29,493,616
	<u>38,781,203</u>	<u>31,276,461</u>
<b>NET ASSETS:</b>		
Unrestricted	2,259,011	1,897,671
Temporarily restricted	108,783,013	92,993,234
	<u>111,042,024</u>	<u>94,890,905</u>
	<u>\$ 149,823,227</u>	<u>\$ 126,167,366</u>

*The accompanying notes are an integral part of the consolidated financial statements.*

**SAN ANGELO AREA FOUNDATION**  
**San Angelo, Texas**

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT:</b>			
Total amounts raised	\$ 360,596	\$ 12,257,115	\$ 12,617,711
Less: amounts received for agency endowments		(3,463,030)	(3,463,030)
Contributions	360,596	8,794,085	9,154,681
Investment income	199,203	3,040,599	3,239,802
Less: investment income for agency endowments		(805,931)	(805,931)
Investment income	199,203	2,234,668	2,433,871
Total net realized/unrealized gains on investments	195,342	15,541,955	15,737,297
Less: investment gains on agency endowments		(4,072,312)	(4,072,312)
Net realized/unrealized gains on investments	195,342	11,469,643	11,664,985
Net assets released from restrictions	6,871,296	(6,871,296)	-
Total Revenues, Gains and Other Support	7,626,437	15,627,100	23,253,537
<b>GRANTS AND EXPENSES:</b>			
Total grants and distributions	7,799,550		7,799,550
Less: grants and distributions made from agency endowments	(755,555)		(755,555)
Grants and distributions	7,043,995	-	7,043,995
Total investment expenses	2,069	225,332	227,401
Less: investment expenses for agency endowments		(63,064)	(63,064)
Investment expenses	2,069	162,268	164,337
Total management and general	133,323	889,087	1,022,410
Less: management and general for agency endowments		(137,136)	(137,136)
Management and general	133,323	751,951	885,274
Fundraising expense	85,710		85,710
Total Grants and Expenses	7,265,097	914,219	8,179,316
Change in value of split-interest agreements		1,076,898	1,076,898
<b>CHANGE IN NET ASSETS</b>	361,340	15,789,779	16,151,119
<b>NET ASSETS AT BEGINNING OF YEAR</b>	1,897,671	92,993,234	94,890,905
<b>NET ASSETS, END OF YEAR</b>	\$ 2,259,011	\$ 108,783,013	\$ 111,042,024

*The accompanying notes are an integral part of the consolidated financial statements.*

**SAN ANGELO AREA FOUNDATION**  
**San Angelo, Texas**

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT:</b>			
Total amounts raised	\$ 534,776	\$ 10,609,843	\$ 11,144,619
Less: amounts received for agency endowments		(1,257,542)	(1,257,542)
Contributions	534,776	9,352,301	9,887,077
Investment income	189,168	3,176,560	3,365,728
Less: investment income for agency endowments		(818,029)	(818,029)
Investment income	189,168	2,358,531	2,547,699
Total net realized/unrealized gains on investments	81,466	7,260,602	7,342,068
Less: investment gains on agency endowments		(1,860,980)	(1,860,980)
Net realized/unrealized gains on investments	81,466	5,399,622	5,481,088
Net assets released from restrictions	5,488,751	(5,488,751)	-
Total Revenues, Gains and Other Support	6,294,161	11,621,703	17,915,864
<b>GRANTS AND EXPENSES:</b>			
Total grants and distributions	5,809,103		5,809,103
Less: grants and distributions made from agency endowments	(313,220)		(313,220)
Grants and distributions	5,495,883	-	5,495,883
Total investment expenses	2,411	197,895	200,306
Less: investment expenses for agency endowments		(53,195)	(53,195)
Investment expenses	2,411	144,700	147,111
Total management and general	190,426	749,245	939,671
Less: management and general for agency endowments		(113,705)	(113,705)
Management and general	190,426	635,540	825,966
Fundraising expense	82,042		82,042
Total Grants and Expenses	5,770,762	780,240	6,551,002
Change in value of split-interest agreements		2,780,615	2,780,615
<b>CHANGE IN NET ASSETS</b>	523,399	13,622,078	14,145,477
<b>NET ASSETS AT BEGINNING OF YEAR</b>	1,374,272	75,400,944	76,775,216
Prior period adjustment		3,970,212	3,970,212
<b>NET ASSETS AT BEGINNING OF YEAR, AS RESTATED</b>	1,374,272	79,371,156	80,745,428
<b>NET ASSETS, END OF YEAR</b>	\$ 1,897,671	\$ 92,993,234	\$ 94,890,905

*The accompanying notes are an integral part of the consolidated financial statements.*

**SAN ANGELO AREA FOUNDATION**  
**San Angelo, Texas**

*CONSOLIDATED STATEMENTS OF CASH FLOWS*

	<u>For the Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 16,151,119	\$ 14,145,477
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized/unrealized gains on investments	(15,742,429)	(7,348,685)
Unrealized loss on oil and gas interests	5,132	6,617
Reinvested income	(2,947,857)	(3,175,967)
Non-cash contributions	-	(259,000)
Depreciation and amortization	105,130	105,170
(Increase)/Decrease in:		
Contributions receivable	(350,000)	-
Assets held in trust	(796)	(168,483)
Beneficial interest in charitable remainder trusts	(1,124,129)	(2,826,373)
Other assets	(40)	40
Increase/(Decrease) in:		
Accounts payable	(989)	2,380
Grants payable	41,362	-
Present value of annuities	45,807	212,029
Deferred compensation	33,044	25,935
Funds held as agency endowments	7,385,518	3,456,431
	<u>3,600,872</u>	<u>4,175,571</u>
<b>Net Cash Provided by Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	(54,172)	(35,922)
Purchase of investments	(26,452,387)	(10,555,810)
Proceeds from sales and maturities of investments	24,845,200	7,309,424
	<u>(1,661,359)</u>	<u>(3,282,308)</u>
<b>Net Cash Used in Investing Activities</b>		
	<u>1,939,513</u>	<u>893,263</u>
<b>Net Increase in Cash and Cash Equivalents</b>		
	<u>2,191,354</u>	<u>1,298,091</u>
<b>Cash and Cash Equivalents at Beginning of Year</b>		
	<u>2,191,354</u>	<u>1,298,091</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 4,130,867</u>	<u>\$ 2,191,354</u>

*The accompanying notes are an integral part of the consolidated financial statements.*

**SAN ANGELO AREA FOUNDATION**  
**San Angelo, Texas**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

**NOTE 1: STATEMENT OF ORGANIZATION AND PURPOSE**

The San Angelo Area Foundation was incorporated on January 11, 2002, under the laws of the State of Texas as a non-profit corporation. The purpose of the Foundation is to build a legacy of philanthropy by attracting and prudently managing endowed gifts in order to match donor interests with community needs of the area.

SAAF Holdings, L.L.C. was established on June 7, 2011, under the laws of the State of Texas as a limited liability company with the San Angelo Area Foundation being its sole member. The purpose of SAAF Holdings, L.L.C. is to hold and manage real estate for the benefit of the Foundation.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation

The consolidated financial statements include the accounts of San Angelo Area Foundation and SAAF Holdings, L.L.C. (collectively referred to as the "Foundation"). All significant inter-company transactions and balances have been eliminated in consolidation.

The accounting and reporting policies of the Foundation conform with accounting principles generally accepted in the United States of America. Policies and practices which materially affect the determination of financial position are summarized as follows:

Net Asset Classifications

The Foundation has adopted Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Organizations*. ASC 958 requires the Foundation to classify the net assets of the Foundation based on the existence or absence of donor imposed restrictions. These classifications of net assets are described as follows:

Unrestricted - All resources over which the governing board has discretionary control.

Temporarily Restricted - Resources that have donor imposed restrictions that permits the Foundation to expend the assets as specified and is satisfied either by the passage of time or by actions of the Foundation.

Permanently Restricted - Resources that include a donor imposed restriction that stipulates that resources be maintained permanently but permits the Foundation to use or expend part or all of the income (or other economic benefit) derived from the donated assets.

ASC 958, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). ASC



958 also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA. The State of Texas Adopted UPMIFA September 1, 2007.

The Foundation is governed subject to the governing documents of the Foundation and the majority of contributions are received subject to the terms of the governing document. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation.

Under the terms of the governing documents, the Board of Directors has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund,
2. The purposes of the Foundation and the donor-restricted endowment fund,
3. General economic conditions,
4. The possible effect of inflation and deflation,
5. The expected total return from income and appreciation of the investments,
6. Other resources of the Foundation, and
7. The investment policies of the Foundation.

As a result of the ability to distribute corpus, the Board of Directors has determined that all contributions received subject to the governing document, and subject to UPMIFA, are classified as temporarily restricted until the restriction imposed has been relieved. Contributions that are subject to other gift instruments may be recorded as permanently restricted, temporarily restricted or unrestricted, depending on the specific terms of the agreement. Generally, if the corpus of a contribution will at some future time become available for spending it is recorded as temporarily restricted, if the corpus never becomes available for spending it will be reported as permanently restricted. In addition, contributions that are promised to be given in a future period are presented as temporarily restricted until the payments are due.

#### Cash and Cash Equivalents

Cash and cash equivalents include highly liquid instruments with maturities of three months or less. The Foundation maintains large balances of funds which are held for the benefit of others. These funds are generally held for a relatively short period of time; therefore, it is the policy of the Foundation to avoid market risk and maintain liquidity by holding cash and cash equivalents for a portion of the funds.

#### Investments

Investments are carried at market value. Cash held in certain brokerage accounts is considered a short-term investment. Unrealized and realized gains and losses are recorded in the accompanying statements of activities as realized/unrealized gains (losses) on investments. The cost of investments sold is based on the specific identification method. Realized gains and losses and declines in value judged to be other than temporary are included in securities gains (losses).

Market value for investments is based on market indices for those items with a readily ascertainable market value. Hedge funds and private equity funds are valued primarily by the respective fund managers based on the underlying investments.

Investment income is recorded monthly and added to or subtracted from the applicable category of net assets.

### Oil and Gas Interests

Oil and gas interests have been valued by management at three times the estimated annual royalty revenues. Any changes in value are considered to be an unrealized gain or loss.

### Promises to Give

Contributions are recognized when the Foundation is notified of the contribution net of any allowance for amounts considered uncollectible. Contributions that have donor-imposed restrictions are reported as increases in temporarily or permanently restricted net assets. Other contributions are reported as increases in unrestricted net assets. The Foundation had \$350,000 and \$0 recorded as a contribution receivable as of December 31, 2017 and 2016, respectively. Management considers receivables to be fully collectible as of December 31, 2017 and 2016; therefore, an allowance for doubtful accounts was not considered necessary.

### Fixed Assets

Fixed assets are stated at cost, or if acquired by gift, at fair market value at the date of the gift. Depreciation and amortization of fixed assets is provided for in amounts sufficient to relate their cost to operations over their estimated useful lives (3-15 years) on a straight-line basis. Depreciation and amortization expense was \$105,130 and \$105,170 for the years ended December 31, 2017 and 2016, respectively.

### Land Held for Sale

Land held for sale is carried at fair market value. It is management's intent to sell the property in the next year although there can be no assurance the property will sell.

### Beneficial interest in charitable trusts

Beneficial interest in charitable remainder trusts represents the amount held for the benefit of the Foundation under irrevocable trust agreements between donors and third-party trustees and are carried at fair value in the consolidated statements of financial position (see Note 6). The Foundation estimates the fair value of the interest annually and recognizes changes in the fair value as a "Change in value of split-interest agreements" in the consolidated statements of activities.

### Present Value of Split-Interest Trust and Annuities

The present value of the split-interest trust is based on the creation of a charitable lead annuity trust of which the Foundation is the trustee. At the date of the gift, assets held in trust are increased by the present value of the trust assets based on market value. Income earned on trust investments is credited to annuities payable and payments to annuitants are charged to assets held in trust. The present value also includes the present value of the liability for charitable gift annuities. At the end of each year the annuity payable is adjusted to reflect the present value of the amounts owed to the beneficiaries. The Federal tax regulations stated methods and tables were utilized to determine the value of the future annuity payments. The Foundation utilized the 2000 CM mortality table in valuing its charitable gift annuities for December 31, 2017 and 2016. See Note 6 for additional information regarding the Foundation's split-interest agreements, including charitable gift annuities.

### Federal Income Taxes

The San Angelo Area Foundation has been granted an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code in an exemption letter dated July 24, 2002. The Internal Revenue Service has further determined that the Foundation is a publicly supported organization under Section 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code.

SAAF Holdings, L.L.C. is a disregarded entity for income tax purposes.

In accordance with ASC 740-10, Accounting for Uncertainty in Income Taxes, management has evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that required adjustment to the financial statements to comply with the provisions of this guidance. With a few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2014.

#### Contributions

The Foundation has adopted ASC 958, *Accounting for Contributions Received and Contributions Made*. ASC 958 requires the Foundation to record contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the nature of any restrictions made by the donor. Contributions include gifts of cash and promises to give.

Contributions of securities and property to the Foundation are recorded at fair market value at the date of the gift. Restricted contributions are reported as restricted support in the period received and are then reclassified to unrestricted net assets upon satisfaction of the donor imposed restriction.

#### Administrative Fees

Administrative fees are assessed against the various funds according to a fee schedule set by the Board of Directors. These fees are added to unrestricted net assets to reimburse the Foundation for the expense involved in administering the funds.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Concentrations of Credit Risk – Cash

The Foundation maintains cash balances at a financial institution. Non-interest bearing accounts are fully insured by the Federal Deposit Insurance Corporation and interest bearing accounts up to \$250,000. The Foundation also maintains accounts at brokerage firms. The accounts contain cash and securities. Cash and security balances are insured up to \$250,000 and \$500,000, respectively, by the Securities Investor Protection Corporation with a maximum amount of insurance being \$500,000 for each brokerage firm. At various times during the year, the Foundation may have balances at the financial institution and stock brokerage firms in excess of these limits.

#### 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 Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return amounts sufficient to support the spending policy, net of investment fees. Actual returns in any given year may vary from this objective.

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 spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for grant making and administration. The current target spending amount (subject to request for variances) for the Foundation, which includes administrative fees, shall be 5% of the previous twelve month rolling average of the portfolio's market value. In the event a fund has less than twelve quarters of history to average, the average will use the value of the fund at inception and subsequent history, until twelve quarters of historical averages have been accumulated. Accordingly, over the long term, the Foundation expects to provide a total return that provides sufficient assets to fund the Foundation's spending policy. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

#### Reclassifications

The accompanying financial statements for the year ended December 31, 2016, reflect reclassifications of certain balances or amounts from one category to another to conform with classifications implemented by management in the fiscal year ended December 31, 2017. The reclassifications do not affect the change in net assets or net assets.

#### Subsequent Events

The Foundation has evaluated subsequent events through April 27, 2018, the date the financial statements were available to be issued.

#### Recent Accounting Pronouncements

##### ASU 2016-14

In August 2016, the FASB issued Accounting Standards Update 2016-14 *Not-For-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. This standard addresses improvement of the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of the update include: 1.) Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period rather than three. These would be net assets with donor restrictions and net assets without donor restrictions. 2.) Present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes. 3.) Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation if using the direct method. 4.) Provide enhanced disclosures. 5.) Reporting investment return net of external and direct internal investment expenses, and 6.) In the absence of explicit donor stipulations the use of the placed in service approach for reporting expirations or restrictions on gifts of cash or other assets. The amendments are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early adoption is permitted. This is expected to have a significant impact on the presentation of the financial statements once adopted.

##### ASU 2016-02

The FASB finalized the standard on leases in ASU 2016-02 *Leases* in February 2016. This update was to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle is that the lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee and therefore recognition of those lease assets and lease liabilities represent an improvement over previous GAAP. Under the guidance a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Additional guidelines for finance leases, operating leases and lessors is

included in the guidance. The amendments will be effective for fiscal years beginning after December 15, 2018 for not-for-profit entities that have issued or is a conduit bond obligor. For all other entities the amendments are effective for fiscal years beginning after December 15, 2019.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force) and the American Institute of Certified Public Accountants did not or are not believed by management to have a material impact on the Foundation's present or future financial statements.

**NOTE 3: INVESTMENTS**

The securities held by the Foundation in its name consist of the following investment groups at December 31:

	2017			
	Cost	Market Value	Cumulative Unrealized	
			Gain	Loss
Cash held for investments	\$ 548,998	\$ 548,998	\$ -	\$ -
Equities	19,749	19,749	-	-
Mutual funds	114,725,779	130,959,396	16,777,327	(543,710)
Alternative investments	293,916	257,735	-	(36,181)
Certificates of deposit	571,000	571,000	-	-
<b>Total</b>	<b>\$ 116,159,442</b>	<b>\$ 132,356,878</b>	<b>\$ 16,777,327</b>	<b>\$ (579,891)</b>

	2016			
	Cost	Market Value	Cumulative Unrealized	
			Gain	Loss
Cash held for investments	\$ 687,022	\$ 687,022	\$ -	\$ -
Equities	19,749	19,749	-	-
Mutual funds	105,628,541	110,535,805	8,671,575	(3,764,311)
Alternative investments	278,109	251,829	-	(26,280)
Certificates of deposit	565,000	565,000	-	-
<b>Total</b>	<b>\$ 107,178,421</b>	<b>\$ 112,059,405</b>	<b>\$ 8,671,575</b>	<b>\$ (3,790,591)</b>

The following table shows the gross unrealized losses and fair value of the Foundation's investments with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous realized loss position, at December 31, 2017:

	Less than 12 months		12 months or longer	
	Market Value	Unrealized Loss	Market Value	Unrealized Loss
Mutual funds	\$ -	\$ -	\$ 22,184,954	\$ (543,710)
Alternative investments	-	-	257,735	(36,181)
<b>Total temporarily impaired securities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 22,442,689</b>	<b>\$ (579,891)</b>

The following table shows the gross unrealized losses and fair value of the Foundation's investments with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous realized loss position, at December 31, 2016:

	Less than 12 months		12 months or longer	
	Market Value	Unrealized Loss	Market Value	Unrealized Loss
Mutual funds	\$ 1,848,912	\$ (27,700)	\$ 43,362,149	\$ (3,736,611)
Alternative investments	-	-	251,829	(26,280)
Total temporarily impaired securities	<u>\$ 1,848,912</u>	<u>\$ (27,700)</u>	<u>\$ 43,613,978</u>	<u>\$ (3,762,891)</u>

Management believes the unrealized losses are temporary and are caused by general market fluctuations. Management has the intent and ability to hold the investments until recovery of market value.

Investment income is comprised of the following for the years ended December 31:

	2017	2016
Interest income	\$ 8,023	\$ 6,544
Dividend income	3,072,303	3,212,884
Realized gain on sale of investments	4,365,769	307,321
Unrealized gain on investments	11,371,528	7,034,747
Rental income	150,655	146,300
Other income	8,821	-
TOTAL	<u>\$ 18,977,099</u>	<u>\$ 10,707,796</u>

#### NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2017	2016
Cost:		
Land	\$ 222,954	\$ 222,954
Computer software	73,159	73,159
Building	2,842,459	2,842,459
Furniture and equipment	164,619	175,106
Construction in progress	51,746	-
Total cost	3,354,937	3,313,678
Less accumulated depreciation and amortization	<u>(438,726)</u>	<u>(346,509)</u>
Net book value	<u>\$ 2,916,211</u>	<u>\$ 2,967,169</u>

**NOTE 5: COMMITMENTS**

At December 31, 2017, conditional grants payable were due in future years as follows:

<u>Year ending December 31.</u>	
2018	\$ 605,003
2019	402,596
2020	204,242
2021	82,875
2022 and beyond	<u>2,000</u>
	\$ <u>1,296,716</u>

Conditional grants are composed of \$1,121,019 for various scholarships, and \$175,697 for other miscellaneous purposes.

**NOTE 6: SPLIT-INTEREST AGREEMENTS**

A donor created a charitable lead annuity trust between themselves and the Foundation on September 30, 2004. The trust is irrevocable and may not be altered, amended, revoked, or terminated by the trustor or any other person. However, the trustee has the power, acting alone, to amend the trust in any manner required for the sole purpose of ensuring that the trust qualifies at all times as a charitable lead annuity trust. The assets transferred to the trust were: (1) an undivided thirty-percent (30%) out of real estate and; (2) cash in the amount of \$15,000, providing for an annuity payment of \$49,000 at least annually each year, with the trust terminating on September 30, 2018. When the trust terminates, all of the trust estate shall be transferred, conveyed, and delivered to the initial donor or the donor's estate. It is the intent of the donor that \$49,000 of the net earnings of the trust is to be available for gifts and grants to be made each year in accordance with donor advisory procedures. The change in value of the charitable lead annuity trust was (\$47,232) and (\$45,758) for the year ended December 31, 2017 and 2016, respectively. The Foundation's liability under the charitable lead annuity trust was \$1,695,766 and \$1,647,739 at December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016 the Foundation had liabilities under charitable gift annuities amounting to \$61,071 and \$63,291, respectively. Under the agreements the Foundation is required to make annual payments to beneficiaries of \$6,529. The change in value of the liability for the charitable gift annuities was (\$4,319) and (\$4,309) for the year ended December 31, 2017 and 2016, respectively, and is included in the consolidated statement of activities as a reduction in contributions.

The Foundation is the remainder beneficiary of an irrevocable charitable remainder trust. The assets of the trust are held by a third-party trustee. The trust provides for the payment of distributions to a third-party beneficiary over the trust's term, which is the designated beneficiary's lifetime. At the end of the trust's term, the remaining assets are to be distributed to the Foundation. The Foundation estimates the present value of the future benefits expected to be received at the end of the trust's term based on the designated beneficiary's life expectancy utilizing the 2000 CM mortality table, and a discount rate of 2.6% and 1.8% at December 31, 2017 and 2016, respectively. The fair value of the beneficial interest was \$7,920,714 and \$6,796,585 at December 31, 2017 and 2016, respectively. The change in value of the beneficial interest was \$1,124,130 and \$2,826,373 for the year ended December 31, 2017 and 2016, respectively.

**NOTE 7: FUNDS HELD AS AGENCY ENDOWMENTS**

The Foundation adopted ASC 958, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*. This statement establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets or both to another entity that is specified by the donor. ASC 958 specifically requires that if a not-for-profit organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as agency endowments.

The Foundation maintains variance power and legal ownership of agency endowment funds and as such continues to report the funds as assets of the Foundation. However, in accordance with ASC 958, a liability has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the NPOs.

At December 31, 2017 and 2016, the Foundation was the owner of seventy-two (72) and seventy-three (73) agency endowment funds, with a combined fair value of \$36,879,134 and \$29,493,616, respectively. All financial activity for the years then ended related to these funds are segregated on the statements of activities and has been reclassified to the agency endowment liability.

The following is a progression of the liability for funds held as agency endowments as of December 31:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 29,493,616	\$ 26,037,185
Contributions	3,463,030	1,257,542
Investment income	805,931	818,029
Realized/unrealized gains	4,072,312	1,860,980
Grants	(755,555)	(313,220)
Management and general expense	<u>(200,200)</u>	<u>(166,900)</u>
Ending balance	<u>\$ 36,879,134</u>	<u>\$ 29,493,616</u>



**NOTE 8: NET ASSETS**

Total net assets consist of the following at December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment funds	\$ 1,295,689	\$ 52,683,513	\$ 53,979,202
Non-endowment funds:			
Undesignated	963,322	-	963,322
Field of interest	-	10,377,974	10,377,974
Scholarship	-	4,150,286	4,150,286
Donor advised	-	15,905,109	15,905,109
Designated	-	17,714,591	17,714,591
Total non-endowment funds	<u>963,322</u>	<u>48,147,960</u>	<u>49,111,282</u>
Split-interest agreements and perpetual trusts	<u>-</u>	<u>7,951,540</u>	<u>7,951,540</u>
Total Net Assets	<u>\$ 2,259,011</u>	<u>\$ 108,783,013</u>	<u>\$ 111,042,024</u>

Total net assets consist of the following at December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment funds	\$ 1,153,547	\$ 54,353,426	\$ 55,506,973
Non-endowment funds:			
Undesignated	744,124	-	744,124
Field of interest	-	6,402,849	6,402,849
Scholarship	-	3,402,955	3,402,955
Donor advised	-	9,028,519	9,028,519
Designated	-	12,933,063	12,933,063
Total non-endowment funds	<u>744,124</u>	<u>31,767,386</u>	<u>32,511,510</u>
Split-interest agreements and perpetual trusts	<u>-</u>	<u>6,872,422</u>	<u>6,872,422</u>
Total Net Assets	<u>\$ 1,897,671</u>	<u>\$ 92,993,234</u>	<u>\$ 94,890,905</u>

Changes in endowment net assets consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Endowment net assets, beginning of year	\$ 55,506,973	\$ 50,036,918
Interest and dividends, net of investment expense	1,130,664	1,430,024
Net realized/unrealized gains	6,325,582	3,511,078
Contributions	1,265,984	1,677,061
Interfund transfers	355,469	1,299,408
Reclassifications	(8,069,076)	-
Amounts appropriated for expenditure	(2,125,689)	(2,010,249)
Administrative fees	<u>(410,705)</u>	<u>(437,267)</u>
Endowment net assets, end of year	<u>\$ 53,979,202</u>	<u>\$ 55,506,973</u>

As of December 31, 2017 and 2016, the market value of certain endowment funds was \$126,659 and \$814,242, respectively, below the historical amount of endowment principal. Each endowment agreement requires that the funds be managed in accordance with the Foundation's governing instruments. The Foundation's governing instruments do not require the restoration of market valuation decreases below the historic principal from unrestricted net assets. Therefore no transfer from unrestricted net assets for these valuation decreases has been made.

**NOTE 9: FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS**

The following methods and assumptions were used by the Foundation in estimating the fair value of its financial instruments:

*Cash and cash equivalents and other assets:* valued at the carrying amount reported in the statement of financial position for cash and cash equivalents which approximates fair value.

*Contributions receivable:* valued based on the underlying collateral; carrying amount reported in the statement of financial position approximates fair value.

*Stocks, equity securities and institutional funds:* valued at the closing price reported on the active market on which the individual securities are traded. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs to the limited market activity of the instrument.

*Mutual funds:* valued at the net asset value of shares held at year end at the closing price reported on the active market.

*Alternative investments and private equity:* valued based on models externally developed by management of the respective instrument using unobservable inputs to the limited market activity of the partnership. Where external valuations were not available, cost is utilized which approximates fair value.

*Assets held in trust:* land is valued at the most recent appraisal value of the specified property using a tax appraisal. Cash held in trust is valued at its denomination, which approximates fair value.

*Beneficial interest in charitable trust:* valued based on the present value of the future distributions expected to be received over the trust term based on the designated beneficiary's life expectancy and a discount rate.

*Cash held for investments and certificates of deposit:* cash is valued at its denomination amount and certificates of deposit are valued at their current principal balance which approximates fair value.

*Oil and gas interests:* valued at the monthly cash flow received from the properties since ownership was conveyed multiplied by thirty-six months to estimate future cash flows expected.

*Land held for sale:* value based upon independent appraisal at time of donation.

*Present value of split-interest trust and annuities:* recorded at the present value of estimated amounts due to income beneficiaries of the agreements based on Internal Revenue Service annuity and mortality tables.

*Accounts payable, grants payable and deferred compensation:* The carrying amount reported in the statement of financial position for these categories approximates its fair value.

*Funds held as agency endowments:* The carrying amount reported in the statement of financial position for funds held as agency endowments approximates its fair value.

The carrying amounts and fair values of the Foundation's financial instruments at December 31, are as follows:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 4,130,867	\$ 4,130,867	\$ 2,191,354	\$ 2,191,354
Contributions receivable	350,000	350,000	-	-
Long-term investments	132,356,878	132,356,878	112,059,405	112,059,405
Assets held in trust	1,787,663	1,787,663	1,786,867	1,786,867
Beneficial interest in charitable remainder trusts	7,920,714	7,920,714	6,796,585	6,796,585
Oil and gas interests	82,856	82,856	89,972	89,972
Land held for sale	259,000	259,000	259,000	259,000
Other assets	30,789	30,789	30,749	30,749
Accounts payable	5,346	5,346	6,335	6,335
Grants payable	41,362	41,362	-	-
Present value of split-interest trust and annuities	1,756,837	1,756,837	1,711,030	1,711,030
Deferred compensation	98,524	98,524	65,480	65,480
Funds held for others	36,879,134	36,879,134	29,493,616	29,493,616

The Foundation has adopted ASC 820, *Fair Value Measurements*, which provides a framework for measuring fair value under generally accepted accounting principles. ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses various methods including market, income, and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilized valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair

values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

*Level 1* – Quoted prices for identical assets and liabilities traded in active exchange markets.

*Level 2* – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

*Level 3* – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgement or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

For fiscal years ended December 31, 2017 and 2016, the application of valuation techniques applied to similar assets has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value.

The fair value of each asset and liability in the tables below was measured using FASB ASC 820 input guidance and valuation techniques. The following tables set forth carrying amounts and estimated fair values of assets and liabilities measured and recorded at fair value on a recurring and non-recurring basis at December 31, 2017 and 2016:

		<u>Fair Value Measurements at Reporting Date Using</u>		
<u>Description</u>	<u>12/31/2017</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Recurring Fair Value Measurements:</b>				
Cash held for investments	\$ 548,998	\$ 548,998	\$ -	\$ -
Assets held in trust	1,787,663	55,677	-	1,731,986
Equity securities:				
Financial	19,749	-	19,749	-
Mutual funds:				
Small growth	2,692,768	2,692,768	-	-
Small blend	2,658,617	2,658,617	-	-
Small value	14,997,458	14,997,458	-	-
Medium value	1,805,921	1,805,921	-	-
Large value	34,164,395	34,164,395	-	-
Large blend	6,596,060	6,596,060	-	-
Large growth	14,397,595	14,397,595	-	-
Moderate allocation	4,990,213	4,990,213	-	-
Emerging markets	1,559,710	1,559,710	-	-
Fixed income	19,678,552	19,678,552	-	-

Description	12/31/2017	(Level 1)	(Level 2)	(Level 3)
International	26,545,156	26,545,156	-	-
Precious metals	872,951	872,951	-	-
Alternative investments	257,735	-	-	257,735
Certificates of deposit	571,000	571,000	-	-
Beneficial interest in charitable trust	7,920,714	3,086,335	1,664,371	3,170,008
Cash value of life insurance	30,789	-	-	30,789
Oil and gas interests	71,105	-	-	71,105
Contributions receivable	350,000	350,000	-	-
<b>Non-recurring fair value measurements:</b>				
Land held for sale	259,000	-	-	259,000
Total	\$ 142,776,149	\$ 135,571,406	\$ 1,684,120	\$ 5,520,623
Present value of split-interest trust and annuities	\$ 1,756,837	\$ -	\$ -	\$ 1,756,837

The table below presents a reconciliation of fair value for assets using significant unobservable inputs as of December 31, 2017:

	Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3)			
	Cash Value Life Insurance	Real Estate Held in Trust	Alternative Investments	Oil and Gas Interests
Beginning balance	\$ 30,749	\$ 1,731,245	\$ 251,828	\$ 76,237
Purchases / Gifts	-	-	15,808	-
Unrealized gains (losses)	40	741	(9,901)	(5,132)
Ending balance	\$ 30,789	\$ 1,731,986	\$ 257,735	\$ 71,105

	Land Held for Sale	Beneficial Interest in Charitable Trust	Present Value of Split-Interest Trust and Annuities
Beginning balance	\$ 259,000	\$ 2,306,980	\$ 1,711,030
Purchases / Gifts	-	-	56
Distributions	-	-	(6,529)
Unrealized gains	-	863,028	52,280
Ending balance	<u>\$ 259,000</u>	<u>\$ 3,170,008</u>	<u>\$ 1,756,837</u>

The table below presents the balances of assets measured at fair value on a recurring basis as of December 31, 2016:

Description	12/31/2016	<u>Fair Value Measurements at Reporting Date Using</u>		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Recurring fair value measurements:</b>				
Cash held for investments	\$ 687,022	\$ 687,022	\$ -	\$ -
Assets held in trust	1,786,867	55,622	-	1,731,245
Equity securities:				
Financial	19,749	-	19,749	-
Mutual funds:				
Small growth	2,208,680	2,208,680	-	-
Small blend	2,391,310	2,391,310	-	-
Small value	11,906,612	11,906,612	-	-
Medium value	597,908	597,908	-	-
Large value	29,275,484	29,275,484	-	-
Large blend	8,043,609	8,043,609	-	-
Large growth	11,583,446	11,583,446	-	-
Moderate allocation	4,380,297	4,380,297	-	-
Emerging markets	278,692	278,692	-	-
Fixed income	17,635,728	17,635,728	-	-
International	22,234,040	22,234,040	-	-
Alternative investments	251,828	-	-	251,828
Certificates of deposit	565,000	565,000	-	-

Description	12/31/2017	(Level 1)	(Level 2)	(Level 3)
Beneficial interest in charitable trust	6,796,585	2,887,130	1,602,475	2,306,980
Cash value of life insurance	30,749	-	-	30,749
Oil and gas interests	76,237	-	-	76,237
<b>Non-recurring fair value measurements:</b>				
Land held for sale	259,000	-	-	259,000
Total	\$ 121,008,843	\$ 114,730,580	\$ 1,622,224	\$ 4,656,039
Present value of split-interest trust and annuities	\$ 1,711,030	\$ -	\$ -	\$ 1,711,030

The table below presents a reconciliation of fair value for assets using significant unobservable inputs as of December 31, 2016:

	Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3)			
	Cash Value Life Insurance	Real Estate Held in Trust	Alternative Investments	Oil and Gas Interests
Beginning balance	\$ 30,789	\$ 1,562,892	\$ 222,696	\$ 82,856
Purchases /gifts	-	-	29,132	-
Unrealized gains (losses)	(40)	168,353	-	(6,619)
Ending balance	\$ 30,749	1,731,245	\$ 251,828	\$ 76,237

  

	Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3)		
	Land Held for Sale	Beneficial Interest in Charitable Trust	Present Value of Split-Interest Trust and Annuities
Beginning balance	\$ -	\$ 642,513	\$ 1,499,001
Purchases / Gifts	259,000	-	58
Distributions	-	-	(6,529)
Unrealized gains	-	1,664,467	218,500
Ending balance	\$ 259,000	\$ 2,306,980	\$ 1,711,030

**NOTE 10: LEASE COMMITMENTS**

The San Angelo Area Foundation currently leases office space from SAAF Holdings, L.L.C under no obligation. Rental expense was \$64,800 for the years ended December 31, 2017 and 2016 and has been eliminated for report purposes.

**NOTE 11: RETIREMENT PLAN**

On January 1, 2007, the Foundation converted their 403(b) plan to a Safe Harbor 401(k) profit sharing plan. All employees previously covered by the 403(b) plan were automatically eligible for the 401(k) plan. The plan is available to all employees over the age of twenty-one who have completed twelve consecutive months of service with a minimum of 1,000 service hours. The Foundation may elect to make matching contributions up to 6% of an employees' salary. The Foundation's cost related to the retirement plan for the years ended December 31, 2017 and 2016 was \$19,885 and \$23,049, respectively.

**NOTE 12: DEFERRED COMPENSATION PLAN**

The Foundation entered into a deferred bonus compensation plan during 2014 in which the Foundation agreed to pay the executive director a deferred bonus upon retirement age in 2024. An annual base amount is awarded which is adjusted based on the return of the Foundation for that specific year. The Foundation has accrued a liability based on the service rendered since inception and will continue to accrue a liability over the expected service period. At December 31, 2017 and 2016, the accrual totaled \$98,524 and \$65,480, respectively.

**NOTE 13: SUPPORTING EXPENSES**

Supporting service expenses are comprised of the following for the years ended December 31:

	2017	2016
Salaries	\$ 464,299	\$ 424,542
Occupancy <sup>1</sup>	153,887	160,536
Salary related costs and benefits	146,426	130,347
Fundraising	85,710	82,042
Information technology	84,780	69,525
Miscellaneous	57,121	30,985
Repairs and maintenance <sup>1</sup>	33,426	32,475
Professional fees	31,210	24,949
Utilities <sup>1</sup>	19,982	17,296
Dues and memberships	14,048	16,985
Supplies	9,196	24,391
Insurance	8,035	7,640
Total	<u>\$ 1,108,120</u>	<u>\$ 1,021,713</u>

<sup>1</sup> Includes depreciation and expenses associated with leased office space, but is not offset by rental income.



**NOTE 14: PRIOR PERIOD ADJUSTMENT**

The Foundation received a beneficial interest in a charitable remainder trust during the year ended December 31, 2015; however, this interest was not recorded. A prior period adjustment was made to reflect the Foundation's interest in the charitable trust and the resulting increase to temporarily restricted net assets on the Foundation's financial statements. As a result of the prior period adjustment, temporarily restricted net assets at December 31, 2015 were increased by \$3,970,212, change in value of split-interest agreements was increased by \$2,826,373 for the year ended December 31, 2016, and assets were increased by \$6,796,585 at December 31, 2016. The consolidated statement of financial position as of December 31, 2016, the consolidated statements of activities and cash flows for the year ended December 31, 2016, and all related note disclosures have been adjusted to reflect the prior period adjustment.

**SUPPLEMENTARY INFORMATION**



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April 27, 2018

Board of Directors  
San Angelo Area Foundation  
San Angelo, Texas

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION**

We have audited the consolidated financial statements of San Angelo Area Foundation (the "Foundation") as of and for the year ended December 31, 2017, and have issued our report thereon, dated April 27, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Condley and Company, L.L.P.*

Certified Public Accountants

SAN ANGELO AREA FOUNDATION  
San Angelo, Texas

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2017

	<u>San Angelo Area Foundation</u>	<u>SAAF Holdings, L.L.C.</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 3,696,262	\$ 434,605
Contributions receivable	350,000	
Investments at market	132,356,878	
Investment in SAAF Holdings, L.L.C.	3,233,375	
Assets held in trust	1,787,663	
Beneficial interest in charitable remainder trusts	7,920,714	
Fixed assets, net	117,441	2,798,770
Oil and gas interests	71,105	
Land held for sale	259,000	
Other assets	30,789	
<b>TOTAL ASSETS</b>	<b>\$ <u>149,823,227</u></b>	<b>\$ <u>3,233,375</u></b>
 <u>LIABILITIES, NET ASSETS AND MEMBER'S EQUITY</u>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 5,346	\$
Grants payable	41,362	
Present value of split-interest trusts	1,756,837	
Deferred compensation	98,524	
Funds held as agency endowments	36,879,134	
<b>Total Liabilities</b>	<b><u>38,781,203</u></b>	<b><u>-</u></b>
 <b>NET ASSETS AND MEMBER'S EQUITY:</b>		
Unrestricted	2,259,011	
Temporarily restricted	108,783,013	
Member's equity		3,233,375
<b>Net Assets</b>	<b><u>111,042,024</u></b>	<b><u>3,233,375</u></b>
<b>TOTAL LIABILITIES, NET ASSETS AND MEMBER'S EQUITY</b>	<b>\$ <u>149,823,227</u></b>	<b>\$ <u>3,233,375</u></b>

<u>Eliminations</u>	<u>Consolidated San Angelo Area Foundation</u>
\$	\$
	4,130,867
	350,000
	132,356,878
(3,233,375)	-
	1,787,663
	7,920,714
	2,916,211
	71,105
	259,000
	30,789
<u>(3,233,375)</u>	<u>149,823,227</u>

\$	\$
	5,346
	41,362
	1,756,837
	98,524
	36,879,134
-	38,781,203
	2,259,011
	108,783,013
(3,233,375)	-
<u>(3,233,375)</u>	<u>111,042,024</u>
<u>(3,233,375)</u>	<u>149,823,227</u>

**SAN ANGELO AREA FOUNDATION**  
**San Angelo, Texas**

**CONSOLIDATING STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2017

	<u>San Angelo Area Foundation Unrestricted</u>	<u>SAAF Holdings, L.L.C. Unrestricted</u>	<u>Eliminations</u>
<b>REVENUES, GAINS AND OTHER SUPPORT:</b>			
Total amounts raised	\$ 360,596	\$	\$
Less: amounts received for agency endowments Contributions	<u>360,596</u>	<u>-</u>	<u>-</u>
Investment income	48,379	215,624	(64,800)
Less: investment income for agency endowments Investment income	<u>48,379</u>	<u>215,624</u>	<u>(64,800)</u>
Total net realized/unrealized gains on investments	227,835		(32,493)
Less: investment gains on agency endowments Net realized/unrealized gains on investments	<u>227,835</u>	<u>-</u>	<u>(32,493)</u>
Net assets released from restrictions	<u>6,871,296</u>		
Total Revenues, Gains and Other Support	<u>7,508,106</u>	<u>215,624</u>	<u>(97,293)</u>
<b>GRANTS AND EXPENSES:</b>			
Total grants and distributions	7,799,550		
Less: grants and distributions made from agency endowments Grants and distributions	<u>(755,555)</u>	<u>-</u>	<u>-</u>
Total investment expenses	2,069		
Less: investment expenses for agency endowments Investment expenses	<u>2,069</u>	<u>-</u>	<u>-</u>
Total management and general	14,992	183,131	(64,800)
Less: management and general for agency endowments Management and general	<u>14,992</u>	<u>183,131</u>	<u>(64,800)</u>
Fund raising expense	<u>85,710</u>		
Total Grants and Expenses	<u>7,146,766</u>	<u>183,131</u>	<u>(64,800)</u>
Change in value of split-interest agreement			
<b>CHANGE IN NET ASSETS</b>	<u>361,340</u>	<u>32,493</u>	<u>(32,493)</u>
<b>NET ASSETS AT BEGINNING OF YEAR, AS RESTATED</b>	<u>1,897,671</u>	<u>3,200,882</u>	<u>(3,200,882)</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 2,259,011</u>	<u>\$ 3,233,375</u>	<u>\$ (3,233,375)</u>

Consolidated San Angelo Area Foundation		
Unrestricted	Temporarily Restricted	Total
\$ 360,596	\$ 12,257,115	\$ 12,617,711
-	(3,463,030)	(3,463,030)
<u>360,596</u>	<u>8,794,085</u>	<u>9,154,681</u>
199,203	3,040,599	3,239,802
-	(805,931)	(805,931)
<u>199,203</u>	<u>2,234,668</u>	<u>2,433,871</u>
195,342	15,541,955	15,737,297
-	(4,072,312)	(4,072,312)
<u>195,342</u>	<u>11,469,643</u>	<u>11,664,985</u>
<u>6,871,296</u>	<u>(6,871,296)</u>	<u>-</u>
<u>7,626,437</u>	<u>15,627,100</u>	<u>23,253,537</u>
7,799,550		7,799,550
(755,555)		(755,555)
<u>7,043,995</u>	<u>-</u>	<u>7,043,995</u>
2,069	225,332	227,401
-	(63,064)	(63,064)
<u>2,069</u>	<u>162,268</u>	<u>164,337</u>
133,323	889,087	1,022,410
-	(137,136)	(137,136)
<u>133,323</u>	<u>751,951</u>	<u>885,274</u>
<u>85,710</u>		<u>85,710</u>
<u>7,265,097</u>	<u>914,219</u>	<u>8,179,316</u>
<u>-</u>	<u>1,076,898</u>	<u>1,076,898</u>
<u>361,340</u>	<u>15,789,779</u>	<u>16,151,119</u>
<u>1,897,671</u>	<u>92,993,234</u>	<u>94,890,905</u>
<u>\$ 2,259,011</u>	<u>\$ 108,783,013</u>	<u>\$ 111,042,024</u>