

SANDLER O'NEILL + PARTNERS, L.P.

Statement of Financial Condition

December 31, 2016

(Filed Pursuant to SEC Rule 17a-5(e)(3) as a public document)

Sandler O'Neill + Partners, L.P.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

| OMB APPROVAL | |
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**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/16 AND ENDING 12/31/16
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Sandler O'Neill & Partners, L.P.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

1251 Avenue of the Americas, 6th Floor

(No. and Street)

New York

NY

10020

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

May Della Pietra

212.466.7785

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

BDO USA, LLP

(Name - if individual, state last, first, middle name)

100 Park Avenue

New York

NY

10017

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

OATH OR AFFIRMATION

I, May Della Pietra, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Sandler O'Neill & Partners, L.P., as of December 31, 20 16, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

May Della Pietra
Signature

Chief Financial Officer
Title

[Signature]
Notary Public

LAWRENCE BUCKLEY
Notary Public State of New York
No. 01BU6062331
Qualified in Nassau County
Commission Expires 8/6/2017

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

***For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).*



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100 Park Avenue
New York, NY 10017

Report of Independent Registered Public Accounting Firm

The General Partner
Sandler O'Neill + Partners, L.P.
New York, New York

We have audited the accompanying statement of financial condition of Sandler O'Neill + Partners, L.P. as of December 31, 2016. This financial statement is the responsibility of Sandler O'Neill + Partners, L.P.'s management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Sandler O'Neill + Partners, L.P. at December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

New York, New York

February 27, 2017

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Sandler O'Neill + Partners, L.P.

Statement of Financial Condition

December 31, 2016

| | |
|--|-----------------------|
| Assets | |
| Cash and cash equivalents | \$ 191,598,563 |
| Receivables from clearing brokers | 4,155,844 |
| Fees receivable | 3,709,818 |
| Financial instruments owned, at fair value | 5,986,659 |
| Due from affiliates | 24,062 |
| Fixed assets, net of accumulated depreciation and amortization of \$10,953,717 | 10,242,467 |
| Other assets | 5,532,017 |
| Total Assets | \$ 221,249,430 |
| Liabilities and Partners' Capital | |
| Liabilities: | |
| Financial instruments sold, not yet purchased, at fair value | \$ 8,123 |
| Commissions and bonuses payable | 54,816,604 |
| Accrued expenses and other liabilities | 16,996,486 |
| Total Liabilities | 71,821,213 |
| Commitments and Contingencies (Note 7) | |
| Partners' Capital | 149,428,217 |
| | \$ 221,249,430 |

See accompanying notes to financial statement.

Sandler O'Neill + Partners, L.P.

Notes to Statement of Financial Condition

1. Organization

Sandler O'Neill + Partners, L.P. ("Partnership") is a Delaware limited partnership. The Partnership provides brokerage and investment banking services and is registered with the Securities and Exchange Commission ("SEC") as a broker-dealer under the provisions of the Securities Exchange Act 1934, and is a member of the Financial Industry Regulatory Authority ("FINRA").

The Partnership operates under the exemptive provisions of SEC Rule 15c3-3(k)(2)(ii) and as such introduces all customer transaction on a fully disclosed basis to unrelated third party clearing firms ("Brokers"), which are also registered broker dealers.

2. Significant Accounting Policies

Basis of Presentation

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Cash and Cash Equivalents

The Partnership considers all highly liquid investments, with maturities of ninety days or less, as cash equivalents. Cash and cash equivalents held at financial institutions, at times, may exceed the amount insured by the Federal Deposit Insurance Corporation. As of December 31, 2016, the Partnership had approximately \$180,000,000 of U.S. Treasury securities included in cash and cash equivalents in the Statement of Financial Condition.

Restricted cash of approximately \$8,672,000 is included in cash and cash equivalents. Restricted cash is collateral for letters of credit on operating leases.

Fixed Assets

Fixed assets are carried at cost less accumulated depreciation and amortization. Furniture and fixtures and other equipment are depreciated over the estimated useful lives of the assets (ranging from 5-7 years) using the straight-line method. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the respective lease, using the straight-line method. The Partnership's management reviews fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If asset impairment is identified, the asset is written down to fair value. As of December 31, 2016, no fixed assets have been deemed impaired.

Fair Value of Financial Instruments

The carrying value of the Partnership's assets and liabilities, which qualify as financial instruments, approximate fair value.

Fair Value Measurement

The Partnership values all investments at fair value. U.S. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the investment based on available market data. Unobservable inputs are inputs that reflect the Partnership's assumptions about the factors market participants would use in valuing the investment based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Sandler O'Neill + Partners, L.P.

Notes to Statement of Financial Condition

Level 1- Valuations based on quoted prices in active markets for identical investments.

Level 2 - Valuations based on (i) quoted prices in markets that are not active; (ii) quoted prices for similar investments in active markets; and (iii) inputs other than quoted prices that are observable or inputs derived from or corroborated by market data.

Level 3 - Valuations based on inputs that are unobservable, supported by little or no market activity, and significant to the overall fair value measurement.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Partnership in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when valuation inputs are not readily available, the Partnership's own assumptions are used to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Partnership uses prices and inputs that are current and best available as of the measurement date, including during periods of market dislocation.

The following are types of financial instruments the Partnership held as of December 31, 2016:

Exchange-Traded Equity Securities

Exchange-traded equity securities are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied and they are categorized in Level 1 of the fair value hierarchy.

Investment Funds

Investments funds are generally valued at their net asset value ("NAV") as reported by the underlying funds.

Investment funds consist of private equities and hedge funds.

The hedge funds consist of investments in readily marketable and non-readily marketable securities which are valued at fair value.

The private equity funds primarily consist of investments in privately-held companies, which are valued at fair value. These funds are primarily funds in which the Partnership's investments are not eligible for redemption. Distributions will be received from these funds as the underlying investments are liquidated.

The Partnership does not directly invest in the underlying securities of the investment funds, and due to restrictions on the transferability and timing of withdrawals from the investment funds, the amounts realized upon liquidation could differ from such reported values.

Sandler O'Neill + Partners, L.P.

Notes to Statement of Financial Condition

The fair value of the Partnership's investment in an investment fund generally starts with the NAV of the Partnership's investment in the investment fund as reported by the investment fund's general partner or investment manager, who determines the value of the investment fund's NAV in a manner consistent with Accounting Standards Codification ("ASC") Topic 946, "Financial Services - Investment Companies." All valuations utilize financial information supplied by the general partner or investment manager of each investment fund and are net of management and incentive fees/allocation pursuant to the investment fund's applicable agreements. The Partnership may conclude, in certain circumstances, that after considering information reasonably available at the time the valuation is made and that the general partner or investment manager believes to be reliable, the NAV provided by an investment fund's general partner or investment manager is not representative of the fair value of the Partnership's interest in the investment fund. As of December 31, 2016, no valuation adjustments to NAV provided by the investment funds have been made. Because of the inherent uncertainty of valuation, the values of the Partnership's investment in the investment fund may differ significantly from the values that would have been used had an active market for the investments held by the investment fund been available.

Financial Instruments Sold, Not Yet Purchased

The Partnership has sold securities that it does not own and is, therefore, obligated to purchase such securities at a future date. The Partnership has recorded this obligation on the Statement of Financial Condition at the fair value. There is an element of market risk in that, if the securities sold short increase in value, it will be necessary to purchase the securities sold short at a cost in excess of the obligation reflected on the Statement of Financial Condition. A gain, limited to the price at which the Partnership sold the security short, or a loss, potentially unlimited in amount, will be recognized upon the purchase and close out of the security sold short.

Deferred Rent

Minimum lease payments are expensed ratably over the term of the lease. When a lease contains a predetermined fixed escalation of the minimum lease payments, the related rent expense is recognized on a straight-line basis. Lease incentives are deferred and amortized as a reduction to rent expense over the term of the lease, on a straight-line basis. The difference between cash paid and rent expense is recorded as deferred rent. Deferred rent is included in accrued expenses and other liabilities on the Statement of Financial Condition.

Use of Estimates

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

Income Taxes

For income tax purposes, the Partnership's income flows through to each partner's individual income tax returns. As a result, the Partnership is not liable for Federal or New York State and New York City income taxes, except New York City Unincorporated Business Tax ("NYC UBT").

The Partnership applies the provisions of ASC 740, "Income Taxes," which clarifies the accounting for and reporting of income tax uncertainties, and requires additional disclosures related to uncertain income tax positions. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 requires that the Partnership determines whether it

Sandler O'Neill + Partners, L.P.

Notes to Statement of Financial Condition

is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Partnership presumes that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information.

The Partnership has analyzed the positions for all open tax years, and the positions to be taken for the tax year ended December 31, 2016 in its major jurisdictions, and has determined whether or not there are uncertain tax positions that require financial statement recognition. Based on this review, the Partnership has determined the major tax jurisdictions to be where the Partnership performs services. No reserves for uncertain tax positions were required to have been recorded under ASC 740 for the year ended December 31, 2016. However, the Partnership's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof. The open tax years under potential examination vary by jurisdiction.

As of December 31, 2016, there was no impact to the financial statements relating to accounting for uncertainty in income taxes. The amount owed for NYC UBT is included in accrued expenses and other liabilities in the Statement of Financial Condition.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In March 2016, the FASB issued ASU No. 2016-08, *Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*, to clarify certain aspects of the principal-versus-agent guidance in the new revenue recognition standard. The amendments in ASU No. 2016-08 will be in effect for the Partnership's fiscal year ending December 31, 2018. The Partnership is currently evaluating the potential impact of this new guidance on its financial statements and related disclosures, as well as the available transition methods.

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) that requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The guidance is effective for fiscal years beginning after December 15, 2018 (January 1, 2019 for the Partnership). Early adoption is permitted. We are currently evaluating the transition method that will be elected and the effect that the new guidance will have on our financial statements.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, to clarify whether certain items should be categorized as operating, investing or financing in the statement of cash flows. The amendments in the ASU provide guidance on eight issues. The new standard is effective for the Partnership's fiscal year ending December 31, 2018. Early adoption is permitted. The Partnership is currently evaluating the potential impact of this new guidance on its financial statements and related disclosures.

Sandler O'Neill + Partners, L.P.

Notes to Statement of Financial Condition

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash* (Topic 230), to reduce diversity in the presentation of restricted cash and restricted cash equivalents in the statement. The statement requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. The new standard is effective for the Partnership's fiscal year ending December 31, 2019. Early adoption is permitted. The Partnership is currently evaluating the potential impact of this new guidance on its financial statements and related disclosures.

3. Significant Risk Factors

In the normal course of business, the Partnership is engaged in various securities trading and brokerage activities servicing primarily domestic institutional clients. Trading activities are mainly generated by client order flow and the Partnership may, at times, take positions in financial instruments in order to facilitate institutional client transactions. These financial instruments are subject to, but not limited to, the following risks:

Market Risk

Market risk represents the potential loss that can be caused by a change in the fair value of the financial instrument.

Credit Risk

Credit risk represents the potential for loss due to default or deterioration of credit quality of an issuer of financial instruments the Partnership holds. The Partnership monitors the credit quality of all significant financial instruments on a regular basis.

Also, the Partnership is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks and investment companies. Credit risk represents the potential loss that the Partnership would incur if the counterparties failed to perform pursuant to the terms of their obligations to the Partnership. The Partnership may be obligated to discharge the obligation of one or more non-performing counterparties. The Partnership minimizes its exposure to credit risk by monitoring counterparty exposure.

Liquidity Risk

Liquidity risk represents the possibility that the Partnership may not be able to rapidly adjust the size of its positions in times of high volatility and financial stress at a reasonable price.

Sandler O'Neill + Partners, L.P.

Notes to Statement of Financial Condition

4. Financial Instruments

The following presents the Partnership's financial instruments' fair value as of December 31, 2016:

| | Level 1 | Total |
|---|-------------|--------------|
| Assets | | |
| United States: | | |
| Financial instruments owned: | | |
| Exchange-traded equity securities | | |
| Diversified financial services | \$4,992,190 | \$ 4,992,190 |
| Other investments: | | |
| Investments measured at net asset value | - | 994,469 |
| Total financial instruments owned | \$4,992,190 | \$ 5,986,659 |
| Liabilities | | |
| United States: | | |
| Financial instruments sold, not yet purchased: | | |
| Exchange-traded equity securities | | |
| Diversified financial services | \$ (8,123) | \$ (8,123) |
| Total Financial instruments sold, not yet purchased | \$ (8,123) | \$ (8,123) |

The table below presents the fair value of the Partnership's investments in, and unfunded commitments to, hedge funds and private equity funds.

| Type of Investment Funds | Fair Value | Unfunded Commitments |
|----------------------------|------------------|----------------------|
| Long/short hedge funds (a) | \$309,645 | \$ - |
| Private equity funds (b) | 684,824 | 15,000 |
| Total | \$994,469 | \$15,000 |

- (a) This category includes investments in hedge funds that invest in domestic long/short positions in equity securities, warrants, corporate bonds and other investment partnerships.
- (b) This category includes investments in private equity funds that invest in private companies in the global financial services industry.

5. Clearing Agreements

Receivables From Clearing Brokers

The Partnership has clearing agreements with the Brokers to carry its accounts as a customer of the clearing firms and the accounts of its customers. At times, the Partnership will have receivables and or payables to the Brokers, which include cash balances, net of margin debt balances, collateral posted, amounts due to/from for securities transactions that have not yet settled at December 31, 2016, and commissions related to securities.

The Partnership is required to maintain collateral accounts with a minimum fair value of \$1,350,000 in cash or qualifying U.S. Treasury securities. As of December 31, 2016, collateral of

Sandler O'Neill + Partners, L.P.

Notes to Statement of Financial Condition

approximately \$1,350,000 in cash is included in receivables from clearing brokers in the Statement of Financial Condition.

6. Fixed Assets, Net

Fixed assets, net as of December 31, 2016 consist of the following:

| | Estimated Useful Life | Amount |
|---|--------------------------|----------------------|
| Equipment | 5 years | \$ 5,664,042 |
| Furniture and fixtures | 7 years | 3,332,995 |
| Leasehold improvements | Life of lease | 12,199,147 |
| Gross fixed assets | | \$ 21,196,184 |
| Less: Accumulated depreciation and amortization | | (10,953,717) |
| Fixed Assets, net | | \$ 10,242,467 |

7. Commitments and Contingencies

Litigation

The Partnership is a defendant in various legal actions arising in the normal course of its activities as a broker-dealer. While predicting the outcome of litigation is inherently very difficult, and the ultimate resolution, range of loss and impact on operating results cannot be reliably estimated, management believes, based upon its understanding of the facts and the advice of applicable legal counsel, that it has meritorious defenses for all such actions and it intends to defend each of these vigorously, and that the resolution of these actions in the aggregate is not expected to have a materially adverse effect on the Partnership's financial position.

Financing

The Partnership has the ability to finance fixed income positions using securities sold under repurchase agreements. The Partnership has master repurchase agreements with various counterparties. The Partnership also may utilize margin borrowing from the clearing broker. As of December 31, 2016, no financing has been obtained using margin borrowing or repurchase agreements.

Operating Leases

The Partnership leases office space and equipment under non-cancellable lease agreements expiring through 2027. Minimum rental payments are approximately:

| | |
|---------------------------------|----------------------|
| <i>Year ending December 31,</i> | |
| 2017 | \$ 7,239,000 |
| 2018 | 6,843,000 |
| 2019 | 6,782,000 |
| 2020 | 6,562,000 |
| 2021 | 6,194,000 |
| Thereafter | 34,307,000 |
| Total | \$ 67,927,000 |

Sandler O'Neill + Partners, L.P.

Notes to Statement of Financial Condition

8. Profit Sharing 401K Savings Plan

The Partnership has a profit sharing plan under Section 401(k) of the Internal Revenue Code ("Code") covering substantially all of its employees. Participants may contribute a percentage of compensation, but not in excess of the maximum allowed under the Code.

9. Taxes

Deferred taxes occur because of temporary differences arising from the Partnership's tax reporting which differs from the financial statement reporting under US GAAP. Deferred tax assets of approximately \$50,000 and deferred tax liabilities of approximately \$4,000 are recorded in other assets and accrued expenses and other liabilities, respectively, on the Statement of Financial Condition.

10. Affiliate Transactions

The Partnership pays certain general and administrative expenses on behalf of affiliates for which it is reimbursed. As of December 31, 2016, the receivables from affiliates amounted to \$24,062.

11. Regulatory Net Capital Requirements

The Partnership is subject to the SEC Uniform Net Capital Rule, which requires the maintenance of minimum regulatory "net capital" and requires that the ratio of "aggregate indebtedness" to regulatory net capital, both as defined, shall not exceed 15 to 1. As of December 31, 2016, the Partnership had regulatory net capital of approximately \$119,276,000, which was approximately \$114,488,000 in excess of the minimum regulatory net capital requirement of approximately \$4,788,000. The ratio of aggregate indebtedness to regulatory net capital of the Partnership was 0.60 to 1.

12. Subsequent Events

Management has evaluated the possibility of subsequent events existing in the Partnership's financial statements through February 27, 2017, the date the financial statements were issued. Management has determined that there are no material events that would require adjustment to, or disclosure in, the Partnership's financial statements other than those listed below.

For the period from January 1, 2017 through February 27, 2017, the Partnership made partners' tax distributions of approximately \$21,403,000.