

**OKLAHOMA FOUNDATION
FOR EXCELLENCE, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Celinda K. Olszewski, CPA, LLC
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OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.

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P.O. Box 449
Windsor, CO 80550

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Oklahoma Foundation for Excellence, Inc.

We have audited the accompanying financial statements of Oklahoma Foundation for Excellence, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma Foundation for Excellence, Inc. of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Celinda A. Orzewski, CPA, LLC

May 12, 2017

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 310,671	\$ 375,329
Pledges receivable – collectible within one year	6,225	7,375
Prepaid expenses	10,372	11,921
Investments	6,569,201	6,899,120
Property and equipment (net of \$35,630 and \$35,848 accumulated depreciation, respectively)	3,629	2,485
Beneficial interest in perpetual trust	37,684	40,459
Beneficial interest in assets held by others	<u>157,589</u>	<u>168,966</u>
TOTAL ASSETS	<u>\$7,095,371</u>	<u>\$7,505,655</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 2,217	\$ 534
Funds held as agent	<u>35,529</u>	<u>45,794</u>
Total liabilities	<u>37,746</u>	<u>46,328</u>
Net assets		
Unrestricted		
General use	380,750	476,703
Endowment accounts	(10,956)	(8,181)
Board designated – Awards	5,772,158	6,060,106
Board designated – OCCF	<u>64,623</u>	<u>67,663</u>
Total unrestricted	6,206,575	6,596,291
Temporarily restricted	105,190	117,176
Permanently restricted	<u>745,860</u>	<u>745,860</u>
Total net assets	<u>7,057,625</u>	<u>7,459,327</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$7,095,371</u>	<u>\$7,505,655</u>

See accompanying notes to financial statements.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.

STATEMENTS OF ACTIVITIES

For the years ended June 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES AND SUPPORT								
Grants and contributions	\$ 248,690	\$ 318,447	\$ -	\$ 567,137	\$ 246,932	\$322,158	\$ -	\$ 569,090
Investment income appropriated for use	305,975	-	-	305,975	294,929	-	-	294,929
Contributed services and facilities	8,808	21,605	-	30,413	10,323	18,839	-	29,162
Program service events	37,640	-	-	37,640	36,046	-	-	36,046
Other revenue	28,334	-	-	28,334	26,261	-	-	26,261
Net assets released from restriction	<u>342,005</u>	<u>(342,005)</u>	<u>-</u>	<u>-</u>	<u>416,550</u>	<u>(416,550)</u>	<u>-</u>	<u>-</u>
Total operating revenues and support	<u>971,452</u>	<u>(1,953)</u>	<u>-</u>	<u>969,499</u>	<u>1,031,041</u>	<u>(75,553)</u>	<u>-</u>	<u>955,488</u>
OPERATING EXPENSE								
Program expenses								
Awards program	459,562	-	-	459,562	429,926	-	-	429,926
Local Education Foundations	94,701	-	-	94,701	98,263	-	-	98,263
Colonial Williamsburg	28,937	-	-	28,937	28,264	-	-	28,264
Teacher Grants	178,332	-	-	178,332	180,673	-	-	180,673
Alumni Mentors	<u>92,743</u>	<u>-</u>	<u>-</u>	<u>92,743</u>	<u>83,601</u>	<u>-</u>	<u>-</u>	<u>83,601</u>
Total program expenses	<u>854,275</u>	<u>-</u>	<u>-</u>	<u>854,275</u>	<u>820,727</u>	<u>-</u>	<u>-</u>	<u>820,727</u>
Administrative expenses								
Management and general	76,432	-	-	76,432	68,148	-	-	68,148
Fundraising	<u>46,694</u>	<u>-</u>	<u>-</u>	<u>46,694</u>	<u>49,824</u>	<u>-</u>	<u>-</u>	<u>49,824</u>
Total administrative expenses	<u>123,126</u>	<u>-</u>	<u>-</u>	<u>123,126</u>	<u>117,972</u>	<u>-</u>	<u>-</u>	<u>117,972</u>
Total operating expenses	<u>977,401</u>	<u>-</u>	<u>-</u>	<u>977,401</u>	<u>938,699</u>	<u>-</u>	<u>-</u>	<u>938,699</u>
Changes in net assets from operations	<u>(5,949)</u>	<u>(1,953)</u>	<u>-</u>	<u>(7,902)</u>	<u>92,342</u>	<u>(75,553)</u>	<u>-</u>	<u>16,789</u>

(continued)

See accompanying notes to financial statements.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
STATEMENTS OF ACTIVITIES
For the years ended June 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NONOPERATING REVENUES								
Investment income (net of \$30,821 and \$31,321 fees, respectively)	1,150,944	77,912	-	1,228,856	266,122	50,328	-	316,450
Appropriated for current use	(305,975)	-	-	(305,975)	(294,929)	-	-	(294,929)
Unrealized gain (loss) on investments	(1,223,347)	(84,423)	-	(1,307,770)	(69,076)	(24,587)	-	(93,663)
Income from beneficial interests	5,240	-	-	5,240	5,236	-	-	5,236
Unrealized change in beneficial interests	(10,629)	(3,522)	-	(14,151)	(3,134)	(5,982)	-	(9,116)
Nonoperating changes in net assets	(383,767)	(10,033)	-	(393,800)	(95,781)	19,759	-	(76,022)
CHANGES IN NET ASSETS	(389,716)	(11,986)	-	(401,702)	(3,439)	(55,794)	-	(59,233)
NET ASSETS, BEGINNING OF YEAR	<u>6,596,291</u>	<u>117,176</u>	<u>745,860</u>	<u>7,459,327</u>	<u>6,599,730</u>	<u>172,970</u>	<u>745,860</u>	<u>7,518,560</u>
NET ASSETS, END OF YEAR	<u>\$6,206,575</u>	<u>\$105,190</u>	<u>\$745,860</u>	<u>\$7,057,625</u>	<u>\$6,596,291</u>	<u>\$117,176</u>	<u>\$745,860</u>	<u>\$7,459,327</u>

See accompanying notes to financial statements.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended June 30, 2016 and 2015

	2016				2015			
	Program	Management & General	Fund Raising	Total	Program	Management & General	Fund Raising	Total
Personnel	\$305,712	\$33,711	\$30,940	\$370,363	\$294,185	\$35,722	\$30,271	\$360,178
Awards	229,095	-	-	229,095	-	-	240,496	
Professional services	119,082	9,725	1,352	130,159	105,232	9,582	1,338	116,152
Program event site expense	63,968	-	-	63,968	45,381	-	-	45,381
Occupancy	31,918	5,180	4,331	41,429	25,948	3,051	3,511	32,510
Honoraria and acknowledgements	21,553	442	-	21,995	29,320	383	-	29,703
Other expenses	11,161	13,289	-	24,450	8,689	1,545	325	10,559
Public relations	7,064	719	671	8,454	3,563	414	324	4,301
Travel	12,132	425	102	12,659	15,267	395	165	15,827
Printing	9,880	140	551	10,571	8,598	444	1,082	10,124
Meetings	1,889	5,326	-	7,215	1,090	7,706	-	8,796
Postage	5,992	295	1,008	7,295	6,807	996	2,480	10,283
Training	5,364	1,485	-	6,849	6,327	1,140	-	7,467
Computer	5,823	895	832	7,550	5,028	1,846	728	7,602
Office supplies	4,503	620	1,622	6,745	4,028	583	2,732	7,343
Depreciation	1,054	164	150	1,368	2,371	405	343	3,119
Telecommunications	3,943	492	503	4,938	4,101	590	507	5,198
Equipment	4,936	368	682	5,986	3,469	593	502	4,564
Newsletter	-	-	3,525	3,525	-	-	5,112	5,112
Awards materials	3,893	-	-	3,893	5,866	-	-	5,866
Insurance	2,976	355	425	3,756	2,795	479	404	3,678
Commemorative items	2,337	-	-	2,337	2,167	-	-	2,167
Bank charges	-	2,801	-	2,801	-	2,273	-	2,273
Total expenses	<u>\$854,275</u>	<u>\$76,432</u>	<u>\$46,694</u>	<u>\$977,401</u>	<u>\$820,728</u>	<u>\$68,147</u>	<u>\$49,824</u>	<u>\$938,699</u>

See accompanying notes to financial statements.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets from operations	\$ <u>(7,902)</u>	\$ <u>16,789</u>
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	1,368	3,168
Investment return appropriated for operations	(305,975)	(294,929)
(Increase) Decrease in assets:		
Pledges receivable	1,150	62,894
Prepaid expenses	1,549	(3,210)
Increase (Decrease) in liabilities:		
Accounts payable and accrued liabilities	1,683	56
Funds held as agent	<u>(10,265)</u>	<u>23,403</u>
Total adjustments	<u>(310,490)</u>	<u>(208,618)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(318,392)</u>	<u>(191,829)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash payments for the purchase of property and equipment	(2,512)	(526)
Earnings received from beneficial interests	5,240	5,236
Earnings received from investments	118,661	112,052
Cash payments for the purchase of investments	(6,615,499)	(1,739,800)
Cash proceeds from the sale/maturity of investments	6,778,665	1,948,919
Cash paid for management fees	<u>(30,821)</u>	<u>(31,321)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>253,734</u>	<u>294,560</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(64,658)	102,731
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>375,329</u>	<u>272,598</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 310,671</u>	<u>\$ 375,329</u>

See accompanying notes to financial statements.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Oklahoma Foundation for Excellence, Inc. (the Foundation) was established in 1985 under the laws of the State of Oklahoma to recognize and encourage excellence in teaching and scholarship in the State of Oklahoma, to nurture and support a favorable climate for the teaching profession and for the attainment of excellence by students, and to encourage the development of similar groups in Oklahoma communities. The Foundation provides grants and scholarships to educators, students and public school foundations to promote excellence in education within Oklahoma.

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Foundation reports information regarding its financial position and changes in net assets according to three classes of net assets, based on the existence or absence of donor-imposed restrictions, if any, as follows:

Unrestricted - expendable amounts available for use without restriction.

Temporarily Restricted - amounts which have been temporarily restricted by donors for specific purposes or time periods.

Permanently Restricted - amounts restricted by donors to be maintained for the benefit of the Foundation and its programs with income generated by such amounts available for purposes specified by the donor.

Receivables

Receivables are reported at their estimated collectible amount. Uncollectible receivables, if any, are estimated to be immaterial. Receivables are determined to be uncollectible when collection efforts have been exhausted and are written off to expense at that time.

Pledges receivable, which are all expected to be collected within one year, are reported as temporarily restricted net assets until collected. Upon collection, these amounts are:

- Classified as temporarily restricted until any other donor-imposed restriction has been satisfied; or
- Reclassified to unrestricted net assets if their donor-imposed restriction has been satisfied; or
- Reclassified to permanently restricted net assets if they were donor-restricted to permanent endowments.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Actual results could differ from those estimates.

Cash and equivalents

The Foundation considers highly liquid investments with original maturities of three months or less to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in temporarily restricted net assets until expenses are incurred that fulfill their restricted purpose at which time they are reclassified to unrestricted net assets.

Property and Equipment

Purchased assets are recorded at cost, and donated assets are recorded at market value at the time of donation. Property and equipment is capitalized and depreciated over an estimated useful life of two to five years on a straight-line basis.

Income Taxes

The Foundation is an exempt organization under Internal Revenue Service (IRS) Code Section 501(c)(3) and is not classified as a private foundation within the meaning of IRS Code Section 509(a). Therefore, no provision has been made in the financial statements for income taxes.

The Foundation's information returns for the years ending in 2014, 2015 and 2016 are subject to examination by the IRS, generally for three years after they were filed.

Functional expenses

Expenses are allocated between program and supportive services based upon either actual usage or the estimated cost attributable to each function.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Gifts of cash and other assets received with donor stipulations that limit the use of the donated assets are reported as temporarily restricted, when applicable, unless the time restriction ends or a purpose restriction is accomplished within the same reporting period. When a donor's temporary restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily-restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Foundation reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Contributed materials are recorded at market value at the time of donation, and contributed services are recorded at the fair value of the services, provided they meet the following criteria:

- Create or enhance non-financial assets; or
- Require specialized skills, are provided by individuals possessing those skills and would typically be purchased if not provided by donation.

The Foundation receives services from volunteers and companies who give significant amounts of their time and resources to the Foundation's programs and management. No amounts have been reflected for these types of donated services as they do not meet the criteria outlined above.

NOTE 2 – BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

Beneficial interest in assets held by others included:

	2016	2015
Oklahoma City Community Foundation	\$ 64,624	\$ 67,663
Beneficial interest in charitable remainder trust	92,965	101,303
	\$157,589	\$168,966

Oklahoma City Community Foundation: The Foundation and other donors have contributed to a fund administered by the Oklahoma City Community Foundation, Inc. (OCCF) for the benefit of the Foundation. According to OCCF policy, the principal amounts of such contributions become the legal assets of OCCF.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2 – BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS (continued)

The value of reciprocal transfer assets, that is assets transferred by the Foundation to organizations raising or holding contributions for others, such as OCCF, are recognized as assets in the financial statements of the transferor. The value of assets contributed by others to these types of organizations for the benefit of a specified beneficiary are not recognized and recorded by the beneficiary.

The market value of reciprocal transfer assets was \$64,624 and \$67,663 at June 30, 2016 and 2015, respectively. The market value of assets contributed by others to OCCF for the benefit of the Foundation and, therefore, not recorded in the financial statements was \$96,233 and \$100,759 at June 30, 2016 and 2015, respectively.

Annual distributions from earnings are made to the Foundation based on OCCF's spending policy, which is currently five percent of the average market value over the previous twelve quarters for all assets held for the benefit of the Foundation. Distributions to the Foundation under the spending policy of \$8,273 and \$7,901 were received during the years ended June 30, 2016 and 2015, respectively.

Beneficial interest in charitable remainder trust: The Foundation has been named the ultimate beneficiary of a charitable remainder trust administered by an outside trustee. The Foundation's beneficial interest in the assets of this trust is reported at market value. The Foundation will receive no earnings related to this interest until the death of two life-income beneficiaries.

NOTE 3 – FAIR VALUE MEASUREMENTS

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at June 30, 2016 are:

	Quoted Active Market Inputs-Level 1	Significant Observable Inputs-Level 2	Significant Unobservable Inputs-Level 3	Fair Value
Equity securities and mutual funds	\$3,396,623	\$ -	\$ -	\$3,396,623
Corporate bonds and fixed preferred stocks	1,756,655	631,974	-	2,388,629
Alternative investments	315,856	-	-	315,856
Accrued interest	5,738	5,769	-	11,507
Cash equivalents	456,586	-	-	456,586
Beneficial interests	-	-	195,273	195,273

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

NOTE 3 – FAIR VALUE MEASUREMENTS (continued)

The Foundation recognizes transfers of assets into and out of levels as of the date an event or change in circumstances causes the transfer. There were no significant transfers between levels in the years ended June 30, 2016 and 2015.

Level 1 asset values are determined by quoted market prices in active markets for identical assets that the Foundation has the ability to access at the measurement date.

Level 2 asset values are based on “significant other observable inputs,” which include quoted prices for similar, but not identical assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted market prices that are observable, such as interest rate and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates; and other inputs derived from or corroborated by observable market inputs.

Level 3 assets are valued using unobservable inputs including the net present value (NAV) of expected future cash flows which approximates the NAV of the underlying investments as reported by fund administrators at year end.

There were no changes in the valuation techniques applied in the years ended June 30, 2016 and 2015. Also, there were no assets valued at fair value on a nonrecurring basis.

Changes in the values of Level 3 assets included:

Balance at June 30, 2015	\$209,425
Unrealized gain (loss) included in change in net assets	(8,856)
Distributions received	<u>(5,296)</u>
Balance at June 30, 2016	<u>\$195,273</u>

NOTE 4 – FUNDS HELD BY OTHERS

Certain donors have contributed to a fund administered by the Communities Foundation of Oklahoma (CFO) to benefit the Oklahoma Foundation for Excellence. According to CFO policy, the principal amounts of such contributions become the legal assets of CFO. As a result, the value of these assets are not recognized or recorded by the beneficiary, similar to assets contributed by others to OCCF for the benefit of the Foundation, as discussed in Note 2 above. The value of these assets, which is not included in the financial statements but provided for information purposes, was \$89,036 and \$95,133 at June 30, 2016 and 2015, respectively.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

NOTE 5 – RISKS AND UNCERTAINTIES

Investments and beneficial interests are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments will occur in the near term and in such amounts that could be material to the financial statements taken as a whole.

NOTE 6 – UNRESTRICTED NET ASSETS – BOARD DESIGNATED

The Foundation’s board of trustees (the trustees) has designated certain unrestricted net assets to be separately invested with the earnings being used to fund Academic All-State scholarships, Medal for Excellence awards and associated expenses. Utilization of these funds for other purposes would require approval by the Foundation trustees.

The trustees have also designated certain unrestricted net assets to be held by OCCF as more fully described above in Note 2 – Beneficial Interest in Assets Held by Others.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were all restricted for use in future periods when they will be available for the following purposes:

	2016	2015
Academic awards	\$ 5,000	\$ 5,100
Colonial Williamsburg	100	-
Grants and scholarships	6,500	8,500
General operations	93,590	103,576
	\$105,190	\$117,176

NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support:

	2016	2015
Academic All-State Scholarships and Medal for Excellence Awards	\$135,000	\$135,000
David and Molly Boren Mentoring Initiative	462,220	462,220
General use	48,640	48,640
Teacher Scholarship Initiative	100,000	100,000
	\$745,860	\$745,860

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 9 - ENDOWMENTS

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- Donor intent as expressed in the applicable agreement
- 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.

The Foundation has adopted investment and spending policies for endowment assets designed to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended, over the long-term to:

- Enhance the total value of the endowment through appreciation, contributions, and/or the reinvestment of excess current earnings;
- Preserve capital and avoid the risk of large loss;
- Maintain sufficient liquidity to provide for all anticipated withdrawals and to invest in issues with sufficient marketability to provide for unexpected withdrawals.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 9 – ENDOWMENTS (continued)

To satisfy its long-term objectives, the Foundation seeks investment returns 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 constraints.

The spending or distribution policy determined under a method adopted annually by the Board of Trustees provides for distribution from the funds based on a percentage of the average of the market value of the endowment funds over the trailing eight quarters. The Board approved a distribution rate of 4.25% for each of the years ended June 30, 2016 and 2015.

The net asset classifications of the Foundation’s endowment funds as of June 30, 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ (10,956)	\$ 39,721	\$745,860	\$ 774,625
Board-designated endowments	<u>5,836,781</u>	<u>-</u>	<u>-</u>	<u>5,836,781</u>
Total endowment funds	<u>\$5,825,825</u>	<u>\$ 39,721</u>	<u>\$745,860</u>	<u>\$6,611,406</u>

Changes in endowment net assets for the fiscal year ending June 30, 2016, included:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of July 1, 2015	\$6,119,588	\$ 69,805	\$745,860	\$6,935,253
Investment return (loss):				
Investment income	80,868	11,041	-	91,909
Net appreciation (realized & unrealized)	<u>(154,172)</u>	<u>(17,553)</u>	<u>-</u>	<u>(171,725)</u>
Total investment return (loss)	(73,304)	(6,512)	-	(79,816)
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	(217,684)	(26,347)	-	(244,031)
Reclassification of endowment accounts with total net assets less than original gift	<u>(2,775)</u>	<u>2,775</u>	<u>-</u>	<u>-</u>
Endowment net assets at June 30, 2016	<u>\$5,825,825</u>	<u>\$ 39,721</u>	<u>\$745,860</u>	<u>\$6,611,406</u>

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
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NOTE 10 - CONTRIBUTED SERVICES AND FACILITIES

Contributed services and facilities included primarily the value of certain professional services and occupancy costs which were contributed by area businesses.

NOTE 11 – RETIREMENT PLAN

The Foundation has established a Defined Contribution Retirement Plan for the benefit of all employees beginning on the Plan Entry Date. The plan provides for the Foundation to make contributions to the plan equal to 3% of compensation up to Internal Revenue Code limits. The Foundation's contributions for the year ended June 30, 2016 and 2015, totaled \$9,020 and \$8,832, respectively.

NOTE 12 – CONCENTRATIONS

Included in cash and cash equivalents are money market mutual funds not covered by FDIC insurance of approximately \$60,000 and \$140,000 at June 30, 2016 and 2015, respectively. The broker-dealers of the mutual funds and their security customers are generally covered by the basic insurance of Security Investors Protection Corporation (SIPC). This coverage does not insure any declines in market value of the funds.

Investments of the Foundation consist primarily of fixed income securities and equity mutual funds. Credit risk is considered by management to be limited due to the financial stability of the institutions managing the funds and the diversity of the investments.

NOTE 13 – LEASE COMMITMENTS

The Foundation was party to noncancelable leases for certain office space and office equipment. Lease expense related to these agreements totaling \$27,621 and \$25,252 is included in expense for the years ended June 30, 2016 and 2015, respectively. Future minimum lease payments under these agreements will be: 2017 - \$34,931; 2018 – \$35,551; 2019 – \$36,183; 2020 – \$36,672 and 2021 - \$6,881.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 12, 2017, which is the date the financial statements were available to be issued.