

**OKLAHOMA FOUNDATION
FOR EXCELLENCE, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 K. Ogilvie, CPA, LLC

June 1, 2018

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 282,166	\$ 310,671
Pledges receivable – collectible within one year	6,010	6,225
Prepaid expenses	9,586	10,372
Investments	6,912,496	6,569,201
Property and equipment (net of \$31,800 and \$35,630 accumulated depreciation, respectively)	6,289	3,628
Beneficial interest in perpetual trust	40,474	37,684
Beneficial interest in assets held by others	<u>163,705</u>	<u>157,589</u>
TOTAL ASSETS	<u>\$7,420,726</u>	<u>\$7,095,370</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 3,278	\$ 2,217
Funds held as agent	<u>-</u>	<u>35,529</u>
Total liabilities	<u>3,278</u>	<u>37,746</u>
Net assets		
Unrestricted		
General use	348,123	341,028
Endowment accounts	(8,166)	(10,956)
Board designated – Awards	6,077,457	5,772,158
Board designated – OCCF	<u>67,880</u>	<u>64,623</u>
Total unrestricted	6,485,294	6,166,853
Temporarily restricted	186,294	144,911
Permanently restricted	<u>745,860</u>	<u>745,860</u>
Total net assets	<u>7,417,448</u>	<u>7,057,624</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$7,420,726</u>	<u>\$7,095,370</u>

See accompanying notes to financial statements.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.

STATEMENTS OF ACTIVITIES

For the years ended June 30, 2017 and 2016

	2017			2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES AND SUPPORT							
Grants and contributions	\$ 255,063	\$ 314,182	\$ -	\$ 248,690	\$ 318,447	\$ -	\$ 567,137
Investment income appropriated for use	340,431	-	-	305,975	-	-	305,975
Contributed services and facilities	8,249	16,406	-	8,808	21,605	-	30,413
Program service events	32,786	-	-	37,640	-	-	37,640
Other revenue	28,058	-	-	28,334	-	-	28,334
Net assets released from restriction	<u>383,847</u>	<u>(383,847)</u>	-	<u>342,005</u>	<u>(342,005)</u>	-	-
Total operating revenues and support	<u>1,048,434</u>	<u>(53,259)</u>	-	<u>971,452</u>	<u>(1,953)</u>	-	<u>969,499</u>
OPERATING EXPENSE							
Program expenses							
Awards program	455,409	-	-	459,562	-	-	459,562
Local Education Foundations	88,222	-	-	94,701	-	-	94,701
Colonial Williamsburg	30,365	-	-	28,937	-	-	28,937
Teacher Grants	200,343	-	-	178,332	-	-	178,332
Alumni Mentors	95,731	-	-	92,743	-	-	92,743
Total program expenses	<u>870,070</u>	-	-	<u>854,275</u>	-	-	<u>854,275</u>
Administrative expenses							
Management and general	70,998	-	-	76,432	-	-	76,432
Fundraising	47,107	-	-	46,694	-	-	46,694
Total administrative expenses	<u>118,105</u>	-	-	<u>123,126</u>	-	-	<u>123,126</u>
Total operating expenses	<u>988,175</u>	-	-	<u>977,401</u>	-	-	<u>977,401</u>
Changes in net assets from operations	<u>60,259</u>	<u>(53,259)</u>	-	<u>(5,949)</u>	<u>(1,953)</u>	-	<u>(7,902)</u>

(continued)

See accompanying notes to financial statements.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
STATEMENTS OF ACTIVITIES

For the years ended June 30, 2017 and 2016

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NONOPERATING REVENUES								
Investment income (net of \$30,623 and \$30,821 fees, respectively)	158,617	35,047	-	193,664	1,150,944	77,912	-	1,228,856
Appropriated for current use	(340,431)	-	-	(340,431)	(305,975)	-	-	(305,975)
Unrealized gain (loss) on investments	428,587	56,805	-	485,392	(1,223,347)	(84,423)	-	(1,307,770)
Income from beneficial interests	5,293	-	-	5,293	5,240	-	-	5,240
Unrealized change in beneficial interests	6,116	2,790	-	8,906	(10,629)	(3,522)	-	(14,151)
Nonoperating changes in net assets	258,182	94,642	-	352,824	(383,767)	(10,033)	-	(393,800)
CHANGES IN NET ASSETS	318,441	41,383	-	359,824	(389,716)	(11,986)	-	(401,702)
NET ASSETS, BEGINNING OF YEAR	6,166,853	144,911	745,860	7,057,624	6,556,569	156,897	745,860	7,459,326
NET ASSETS, END OF YEAR	\$6,485,294	\$186,294	\$745,860	\$7,417,448	\$6,166,853	\$144,911	\$745,860	\$7,057,624

See accompanying notes to financial statements.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended June 30, 2017 and 2016

	2017			2016			
	Program	Management & General	Fund Raising	Program	Management & General	Fund Raising	Total
Personnel	\$312,808	\$35,080	\$32,263	\$380,151	\$33,711	\$30,940	\$370,363
Awards	241,558	-	-	241,558	-	-	229,095
Professional services	125,136	9,711	1,385	136,232	9,725	1,352	130,159
Program event site expense	43,891	-	-	43,891	-	-	63,968
Occupancy	31,435	4,502	4,262	40,199	5,180	4,331	41,429
Honoraria and acknowledgements	20,902	658	-	21,560	442	-	21,995
Other expenses	21,006	1,080	390	22,476	13,289	-	24,450
Public relations	7,404	515	513	8,432	719	671	8,454
Travel	15,056	424	160	15,640	425	102	12,659
Printing	8,988	835	401	10,224	140	551	10,571
Meetings	325	5,889	-	6,214	5,326	-	7,215
Postage	5,286	90	848	6,224	295	1,008	7,295
Training	7,182	5,821	-	13,003	1,485	-	6,849
Computer	6,058	1,071	866	7,995	895	832	7,550
Office supplies	2,796	397	1,429	4,622	620	1,622	6,745
Depreciation	1,310	204	187	1,701	164	150	1,368
Telecommunications	4,504	825	589	5,918	492	503	4,938
Equipment	4,078	660	586	5,324	368	682	5,986
Newsletter	-	-	2,783	2,783	-	3,525	3,525
Awards materials	4,459	-	-	4,459	-	-	3,893
Insurance	3,115	395	445	3,955	355	425	3,756
Commemorative items	2,773	-	-	2,773	-	-	2,337
Bank charges	-	2,841	-	2,841	2,801	-	2,801
Total expenses	\$870,070	\$70,998	\$47,107	\$988,175	\$76,432	\$46,694	\$977,401

See accompanying notes to financial statements.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
 STATEMENTS OF CASH FLOWS
 For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets from operations	\$ 7,000	\$ (7,902)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	1,701	1,368
Investment return appropriated for operations	(340,431)	(305,975)
(Increase) Decrease in assets:		
Pledges receivable	215	1,150
Prepaid expenses	786	1,549
Increase (Decrease) in liabilities:		
Accounts payable and accrued liabilities	1,061	1,683
Funds held as agent	<u>(35,529)</u>	<u>(10,265)</u>
Total adjustments	<u>(372,197)</u>	<u>(310,490)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(365,197)</u>	<u>(318,392)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash payments for the purchase of property and equipment	(4,361)	(2,512)
Earnings received from beneficial interests	5,293	5,240
Earnings received from investments	121,877	118,661
Cash payments for the purchase of investments	(2,907,958)	(6,615,499)
Cash proceeds from the sale/maturity of investments	3,152,464	6,778,665
Cash paid for management fees	<u>(30,623)</u>	<u>(30,821)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>336,692</u>	<u>253,734</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(28,505)	(64,658)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>310,671</u>	<u>375,329</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 282,166</u>	<u>\$ 310,671</u>

See accompanying notes to financial statements.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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, 2017 and 2016

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 2015, 2016 and 2017 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, 2017 and 2016

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:

	2017	2016
Oklahoma City Community Foundation	\$ 67,880	\$ 64,624
Beneficial interest in charitable remainder trust	95,825	92,965
	\$163,705	\$157,589

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, 2017 and 2016

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 \$67,880 and \$64,624 at June 30, 2017 and 2016, 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 \$101,083 and \$96,233 at June 30, 2017 and 2016, 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 \$8,413 and \$8,273 were received during the years ended June 30, 2017 and 2016, 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, 2017 are:

	<u>Quoted Active Market Inputs-Level 1</u>	<u>Significant Observable Inputs-Level 2</u>	<u>Significant Unobservable Inputs-Level 3</u>	<u>Fair Value</u>
Equity securities and mutual funds	\$4,062,545	\$ -	\$ -	\$4,062,545
Corporate bonds and fixed preferred stocks	1,855,338	375,018	-	2,230,356
Alternative investments	300,163	-	-	300,163
Accrued interest	3,863	3,876	-	7,739
Cash equivalents	311,693	-	-	311,693
Beneficial interests	-	-	204,179	204,179

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

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, 2017 and 2016.

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, 2017 and 2016. 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, 2016	\$195,273
Unrealized gain (loss) included in change in net assets	14,199
Distributions received	<u>(5,293)</u>
 Balance at June 30, 2017	 <u>\$204,179</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 \$92,876 and \$89,036 at June 30, 2017 and 2016, respectively.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017 and 2016

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:

	<u>2017</u>	<u>2016</u>
Academic awards	\$ 2,160	\$ 5,000
Colonial Williamsburg	-	100
Grants and scholarships	17,062	11,113
Mentoring initiative	67,397	35,108
General operations	<u>99,675</u>	<u>93,590</u>
	<u>\$186,294</u>	<u>\$144,911</u>

NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2017</u>	<u>2016</u>
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	<u>100,000</u>	<u>100,000</u>
	<u>\$745,860</u>	<u>\$745,860</u>

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016.

The net asset classifications of the Foundation's endowment funds as of June 30, 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ (8,166)	\$ 77,459	\$745,860	\$ 815,153
Board-designated endowments	<u>6,145,336</u>	<u>-</u>	<u>-</u>	<u>6,145,336</u>
 Total endowment funds	 <u>\$6,137,170</u>	 <u>\$ 77,459</u>	 <u>\$745,860</u>	 <u>\$6,960,489</u>

Changes in endowment net assets for the fiscal year ending June 30, 2017, included:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of July 1, 2016	\$5,825,825	\$ 39,721	\$745,860	\$6,611,406
Investment return (loss):				
Investment income	80,075	11,824	-	91,898
Net appreciation (realized & unrealized)	<u>522,246</u>	<u>75,369</u>	<u>-</u>	<u>597,616</u>
Total investment return (loss)	602,321	87,193	-	689,514
 Contributions	 -	 -	 -	 -
 Appropriation of endowment assets for expenditure	 (293,766)	 (46,665)	 -	 (340,431)
 Reclassification of endowment accounts with total net assets less than original gift	 <u>2,790</u>	 <u>(2,790)</u>	 <u>-</u>	 <u>-</u>
 Endowment net assets at June 30, 2017	 <u>\$6,137,170</u>	 <u>\$ 77,459</u>	 <u>\$745,860</u>	 <u>\$6,960,489</u>

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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, 2017 and 2016, totaled \$9,350 and \$9,020, respectively.

NOTE 12 – CONCENTRATIONS

Included in cash and cash equivalents are money market mutual funds not covered by FDIC insurance of approximately \$40,000 and \$80,000 at June 30, 2017 and 2016, 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 \$35,016 and \$30,163 is included in expense for the years ended June 30, 2017 and 2016, respectively. Future minimum lease payments under these agreements will be: 2018 – \$35,551; 2019 – \$36,183; 2020 – \$36,672 and 2021 - \$6,881.

NOTE 14 – RECLASSIFICATIONS

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on total net assets as previously reported.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 1, 2018, which is the date the financial statements were available to be issued.