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**OKLAHOMA FOUNDATION FOR
EXCELLENCE, INC.**



Independent Auditors' Report

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

We have audited the accompanying financial statements of Oklahoma Foundation for Excellence, Inc., (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Engelbach Roberts & Co. PLLC

Certified Public Accountants

Oklahoma City, Oklahoma
December 13, 2018

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
STATEMENT OF FINANCIAL POSITION
 June 30, 2018

ASSETS

Cash and cash equivalents	\$ 280,476
Pledges receivable (Note 3)	10,000
Accounts receivable	26,000
Prepaid expenses	11,085
Investments (Note 4)	7,056,203
Property and equipment (net of accumulated depreciation of \$26,657) (Note 8)	8,356
Beneficial interest in assets held by others (Note 5)	111,197
Beneficial interest in charitable remainder trust (Note 6)	<u>94,936</u>
 Total assets	 <u><u>\$ 7,598,253</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	<u>\$ 2,100</u>
 Total liabilities	 <u>2,100</u>
Net assets:	
Unrestricted:	
General use	371,363
Board designated - Awards (Note 10)	<u>6,323,810</u>
 Total unrestricted	 6,695,173
Temporarily restricted (Note 11)	212,563
Permanently restricted (Note 12)	<u>688,417</u>
 Total net assets	 <u>7,596,153</u>
 Total liabilities and net assets	 <u><u>\$ 7,598,253</u></u>

See notes to financial statements.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues and support:				
Grants and contributions	\$ 249,143	\$ 359,358	\$	\$ 608,501
Investment income appropriated for use	345,548			345,548
Contributed services and facilities	9,477	21,249		30,726
Program service events	41,962			41,962
Other revenue	35,649			35,649
Net assets released from restriction	401,930	(401,930)		
Total operating revenues and support	1,083,709	(21,323)		1,062,386
Operating expenses:				
Program expenses:				
Adwards program	497,291			497,291
Local Education Foundations	103,556			103,556
Alumni mentors	111,158			111,158
Colonial Williamsburg	44,956			44,956
Teacher grants	154,161			154,161
Total program expenses	911,122			911,122
Administrative expenses:				
Management and general	90,709			90,709
Fundraising	45,095			45,095
Total administrative expenses	135,804			135,804
Total operating expenses	1,046,926			1,046,926
Change in net assets from operations	36,783	(21,323)		15,460
Nonoperating revenues:				
Investment income (net of investment fees of \$29,687)	204,454	22,883		227,337
Appropriated for current use	(345,548)			(345,548)
Unrealized gain (loss) on investments	238,797	25,599		264,396
Income from beneficial interest	15,107			15,107
Unrealized gain (loss) on beneficial interest		(890)	2,843	1,953
Nonoperating changes in net assets	112,810	47,592	2,843	163,245
Total change in net assets	149,593	26,269	2,843	178,705
Net assets, beginning of year, as restated (Note 15)	6,545,580	186,294	685,574	7,417,448
Net assets, end of year	\$ 6,695,173	\$ 212,563	\$ 688,417	\$ 7,596,153

See notes to financial statements.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2018

	Program Services					Supporting Services			Total Program Services and Supporting Services	
	Awards	Local Education Foundations	Mentoring	Colonial Williamsburg	Teacher Grants	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries	\$ 90,577	\$ 58,471	\$ 66,674	\$ 13,320	\$ 55,945	\$ 284,987	\$ 37,296	\$ 29,304	\$ 66,600	\$ 351,587
Payroll taxes	6,739	4,566	5,474	991	4,162	21,932	2,785	2,180	4,965	26,897
Employee benefits	5,325	2,418	2,526	783	3,289	14,341	2,163	1,723	3,886	18,227
Total employee compensation	102,641	65,455	74,674	15,094	63,396	321,260	42,244	33,207	75,451	396,711
Awards	127,000	4,000			59,940	190,940				190,940
Professional services	117,769			6,228		123,997	21,243		21,243	145,240
Program event site expense	67,042	5,352	4,012	1,993	8,370	72,394	5,529	4,385	9,914	72,394
Occupancy	13,552	5,193				33,120	455		455	43,034
Honoraria and acknowledgements	17,033	848	24,300	19,419	13,857	17,568	970	1,225	2,195	18,023
Miscellaneous	2,870	1,112	602	567	1,899	61,294	1,776	984	2,760	63,489
Public relations	7,392	572	2,309		439	11,572	296		296	14,332
Travel	11,210	2,256	302	42	177	14,530	118	326	444	14,826
Printing	8,737	6,097				11,514	6,358		6,358	11,958
Meetings	331	1,571	894	186	121	6,428	76	718	794	12,786
Postage	3,348	6,594	2,188			6,120	1,679		1,679	6,914
Training		824	549	458	1,923	8,782	1,420	1,007	2,427	10,461
Computer	3,113	776	430	207	870	6,867	605	1,598	2,203	9,294
Office supplies	1,822	991	257	214	898	4,105	571	470	1,041	6,308
Telecommunications	1,454	467	311	259	1,089	3,814	724	570	1,294	4,855
Equipment	1,763					3,889	2,010		2,010	5,183
Newsletter		418								2,010
Awards material	5,973		248	207	869	6,391	547	455	1,002	6,391
Insurance	1,407	372				3,103				4,105
Commemorative items	2,384					2,384				2,384
Bank charges							3,924		3,924	3,924
Total before depreciation	496,841	103,433	111,076	44,874	153,848	910,072	90,545	44,945	135,490	1,045,562
Depreciation	450	123	82	82	313	1,050	164	150	314	1,364
Total functional expenses	\$ 497,291	\$ 103,556	\$ 111,158	\$ 44,956	\$ 154,161	\$ 911,122	\$ 90,709	\$ 45,095	\$ 135,804	\$ 1,046,926

See notes to financial statements.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
STATEMENT OF CASH FLOWS
 June 30, 2018\

Cash flows from operating activities:	
Cash received from donors	\$ 578,511
Cash received from beneficial interest	15,107
Cash received from earnings on investment income	227,337
Cash received from program events	41,962
Cash received from other revenue	35,649
Cash paid to vendors	<u>(1,017,514)</u>
Net cash provided (used) by operating activities	<u>(118,948)</u>
Cash flows from investing activities:	
Cash appropriated for operations	(345,548)
Purchase of property and equipment	(3,431)
(Increase) decrease in investments	<u>466,237</u>
Net cash provided (used) by investing activities	<u>117,258</u>
Net increase (decrease) in cash	(1,690)
Cash at beginning of year	<u>282,166</u>
Cash at end of year	<u><u>\$ 280,476</u></u>
Reconciliation of change in net assets to net cash provided (used) by operating activities:	
Change in net assets -increase (decrease)	\$ 178,705
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	1,364
Net unrealized and realized (gains) losses on investments	(266,350)
Net (increase) decrease in unconditional promises to give	(3,990)
Net (increase) decrease in accounts receivable	(26,000)
Net (increase) decrease in prepaid expenses	(1,499)
Net increase (decrease) in accounts payable	<u>(1,178)</u>
Net cash provided (used) by operating activities	<u><u>\$ (118,948)</u></u>
Supplemental schedule of noncash operating activities:	
Fair market value of donated goods and services received	<u><u>\$ 30,726</u></u>

See notes to financial statements.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

1. Nature of Activities and Summary of Accounting Policies

Organization - The Oklahoma Foundation for Excellence, Inc. (the Foundation) was incorporated under the laws of the State of Oklahoma as a nonprofit organization in 1985. The Foundation's mission is to recognize and encourage academic excellence in Oklahoma's public schools. The Foundation focuses on the following five key programs to carry out its mission.

Description of Programs

Academic Awards Program - The Foundation provides scholarships and cash awards to honor 100 outstanding graduating seniors as Academic All-Staters and five exceptional educators as Medal for Excellence winners.

Oklahoma School Foundations Network - Provides free training and resources to school foundations, sponsors the Fall Forum for Oklahoma School Foundations, and various training and networking events for school foundation volunteers and public school supporters.

Early-American History Education - Administers fellowships for fifth and eighth grade teachers to attend the Colonial Williamsburg Teacher Institute. The Foundation also co-sponsors the annual Colonial Day at the Capitol.

Boren Mentoring Initiative - Promotes the establishment and growth of quality youth mentoring programs and promotes mentoring as a positive step toward academic success. The Foundation also sponsors the annual Oklahoma Mentor Day to recognize outstanding youth mentors and helps organize the Coaches Mentoring Challenge.

Professional Development - The Foundation also administers Professional Development Grants for teachers.

Financial Statement Presentation - The Foundation's financial statements are presented on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles for not-for-profit organizations. 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, as follows: unrestricted net assets consist of expendable amounts available to support the operations and objectives of the Foundation; temporarily restricted net assets consist of amounts which have been temporarily

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS

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For the Year Ended June 30, 2018

restricted by donors for specific purpose or time periods; and permanently restricted net assets consist of amounts required to be maintained in perpetuity by the Foundation, with income generated by such amounts available to support operations and objectives of the Foundation.

Contributions - The Foundation reports support in conformity with U.S. generally accepted accounting principles for not-for-profit organizations. Contributions, including unconditional promises to give, are recognized as revenue in the period received or promised and are reported as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions.

The Foundation reports gifts of cash or other assets as restricted support if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, through the passage of time or when a stipulated purpose is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the statement of activities as net assets released from restriction. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

Revenue Recognition - The Foundation records contributions when received or when an unconditional promise to give has been made as unrestricted, temporarily restricted, or permanently restricted depending on donor restrictions, if any are stated at the time of the contribution. Program service fees and other revenues are recognized as revenue in the fiscal year that services are rendered.

Donated Services - Contributions of services are recognized when the services received require specialized skills or enhance non-financial assets. Contributions of services are recorded at fair value when received.

In-Kind Contributions - The Foundation receives numerous in-kind contributions relating to its fundraising events and other various programs. These contributions are recorded at fair value when received.

Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from these estimates. It is at least reasonably possible that the significant estimates of the recorded fair values of investments, which are based on quoted market prices, will change within the next year.

NOTES TO FINANCIAL STATEMENTS

(Continued)

For the Year Ended June 30, 2018

Cash and Cash Equivalents - For purposes of the statement of cash flows, only deposits subject to immediate withdrawal and highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

Investments - Investments consist of marketable investment assets. Marketable securities are reported at fair value calculated in accordance with U.S. generally accepted accounting principles. Such investments include certificates of deposit, mutual funds, fixed income, and other investments. Fair value is generally determined based on quoted market prices, other observable inputs, or unobservable inputs.

Property and Equipment - The Foundation follows the practice of capitalizing all major expenditures for furniture and equipment with a cost greater than \$500. Such assets are recorded at cost, or if acquired by gift, at fair value at date of receipt. Depreciation is provided over the estimated useful lives of the assets of two to five years on a straight-line basis.

Functional Expense Allocation - The costs of providing the various programs of the Foundation have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain indirect costs have been allocated to the programs and supporting services benefited. The allocation of certain indirect expenses between supporting services and program services is based on estimates of the percentage of effort expended by employees, and other factors.

Concentration of Credit Risk - Financial instruments that potentially subject the Foundation to credit risk consist of amounts in financial institutions at June 30, 2018 totaling \$86,569 in excess of the Federal Deposit Insurance Corporation (FDIC) insured limits.

Tax Exempt Status - The Foundation is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code. Therefore, no provision has been made in the accompanying financial statements for income taxes.

The Foundation evaluates and accounts for their uncertain tax positions, if any, in accordance with U.S. generally accepted accounting principles, including the Foundation's tax position as a tax-exempt not-for-profit entity. Through the Foundation's evaluation of its uncertain tax positions, management has determined no uncertain tax positions exist as of June 30, 2018, which would require the Foundation to record a liability for the uncertain tax positions in its financial statements. The Foundation's exempt returns for the years ended before June 30, 2014, are no longer subject to examination by taxing authorities.

NOTES TO FINANCIAL STATEMENTS

(Continued)

For the Year Ended June 30, 2018

Date of Management Evaluation - Management of the Organization has evaluated subsequent events through December 13, 2018, which is the date the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

2. Pension Costs

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 the Internal Revenue Code limits. The Foundation's contributions for the year ended June 30, 2018 totaled \$9,554.

3. Contributions Receivable

The Foundation expects to collect all unconditional pledges to give; therefore they have not estimated an allowance amount. At June 30, 2018, the Foundation had an unconditional pledge to give of \$5,000 in 2019 and \$5,000 in 2020.

4. Investments

Investments are stated at fair value and are summarized as follows:

	<u>Cost</u>	<u>Market Value</u>
Money market	\$319,055	\$319,055
Certificates of deposit	128,000	128,000
Fixed mutual funds	1,890,754	1,811,170
Fixed income	114,737	118,011
Equity mutual funds	3,079,261	4,370,967
Alternative investments	304,409	301,561
Accrued income	7,439	7,439
	<u>\$5,843,655</u>	<u>\$7,056,203</u>

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS

(Continued)

For the Year Ended June 30, 2018

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2018:

Unrestricted:	
Investment income	\$204,454
Net realized and unrealized gains (losses)	<u>238,797</u>
	<u>443,251</u>
Temporarily restricted:	
Investment income	22,883
Net realized and unrealized gains (losses)	<u>25,599</u>
	<u>48,482</u>
Total investment income and gains (losses)	<u><u>\$491,733</u></u>

5. Beneficial Interest in Assets Held by Others

Beneficial interest in assets held by others includes:

Oklahoma City Community Foundation	\$69,371
The Oklahoma United Methodist Foundation	<u>41,826</u>
	<u><u>\$111,197</u></u>

Endowed funds held by Oklahoma City Community Foundation - The Foundation is the beneficiary of a designated agency endowment fund held by the Oklahoma City Community Foundation, Inc. (OCCF) with a market value of \$172,673 at June 30, 2018. This endowment was established with funds contributed by both the Foundation and other third party donors. Under the terms of OCCF's designated fund policies, OCCF has variance power over these assets, and only that portion of the assets contributed by the Foundation together with earnings thereon, is considered to represent the present value of future distributions expected to be made to the Foundation. Of the total fund balance at June 30, 2018, \$69,371 represents contributions and accumulated earnings by the Foundation and is included as an asset in the accompanying statement of financial position. Assets contributed by third party donors, totaling \$103,302 at June 30, 2018, are not reported in the Foundation's financial statements.

The Foundation receives annual distributions from the fund, which totaled \$8,443 for the year ended June 30, 2018.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)
For the Year Ended June 30, 2018

Funds Held by The Oklahoma United Methodist Foundation - Oklahoma Foundation for Excellence, Inc. was the beneficiary of a gift annuity contract administered by The Oklahoma United Methodist Foundation, Inc., with a market value at June 30, 2018 of \$41,826. The Foundation has the irrevocable right to receive income earned on these assets. The income received during the fiscal year ended June 30, 2018 was \$2,039.

6. Beneficial Interest in Charitable Remainder Trust

The Foundation has been named the ultimate beneficiary of a charitable remainder trust administered by an outside trustee with a market value at June 30, 2018 of \$94,936. The Foundation will receive no earnings related to this interest until the death of two life income beneficiaries.

7. 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, Inc. According to CFO policy, the principle amounts of such contributions become the legal assets of CFO. As a result, the value of these assets are not recognized and recorded by the beneficiary, similar to assets contributed by others to OCCF for the benefit of the Foundation, as discussed in Note 5 above. The value of these assets, which is not included in the financial statements but provided for information purposes, was \$92,909 at June 30, 2018. CFO made a distribution to the Foundation during the year ended June 30, 2018 of \$4,625.

8. Property and Equipment

Property and equipment are summarized as follows:

Computer equipment	\$21,327
Furniture and fixtures	<u>13,686</u>
	35,013
Less accumulated depreciation	<u>26,657</u>
Net	<u><u>\$8,356</u></u>

Depreciation expense for the year ended June 30, 2018 was \$1,364.

NOTES TO FINANCIAL STATEMENTS

(Continued)

For the Year Ended June 30, 2018

9. Leases

The Foundation currently leases office space under an operating lease expiring on August 31, 2020. The current required monthly payments are \$2,695. Total expense for the year ended June 30, 2018 was \$32,728 and is included in occupancy. The future required annual payments are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$32,237
2020	32,883
2021	<u>5,498</u>
Total	<u><u>\$70,618</u></u>

The Foundation also currently leases office equipment under operating leases expiring in 2020 and 2021. The required monthly payments are \$329. Rent expense for this equipment for the year ended June 30, 2018 was \$4,530 and is included in equipment expense. The future required annual payments are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$3,945
2020	3,790
2021	<u>1,383</u>
Total	<u><u>\$9,118</u></u>

10. Unrestricted Net Assets - Board Designated

The Foundation's Board of Trustees have 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's trustees.

NOTES TO FINANCIAL STATEMENTS

(Continued)

For the Year Ended June 30, 2018

11. Temporarily Restricted Net Assets

Temporarily restricted net assets were restricted for use in future periods and are for the following purposes:

Academic awards	\$10,000
Grants and scholarships	26,000
Mentoring initiative	81,628
General operations	<u>94,935</u>
	<u><u>\$212,563</u></u>

12. Permanently Restricted Net Assets

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

Academic All-State Scholarships and Medal for Excellence Awards	\$15,000
David and Molly Boren Mentoring Initiative	462,220
General use	111,197
Teacher Scholarship Initiative	<u>100,000</u>
	<u><u>\$688,417</u></u>

13. Endowments

The Foundation follows U.S. generally accepted accounting principles, which provides guidance on the net assets classification of donor-restricted endowment funds for not-for-profit organizations subject to the requirements of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). It also provides guidance on enhanced disclosure information to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policy, and related investment policy of its endowment funds.

The Foundation's endowments consist of donor-restricted funds and funds designated by the Foundation to function as endowments established to support the programs conducted by the Foundation. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including funds designated by the Foundation to function as endowments are classified and reported based on the existence or absence of donor imposed restrictions. The endowments represent only those net assets that are under control of the Foundation.

NOTES TO FINANCIAL STATEMENTS

(Continued)

For the Year Ended June 30, 2018

The Foundation has interpreted UPMIFA as requiring the preservation of the original fair value of gifts to 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. 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.

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 (a) enhance the total value of the endowment through appreciation, contributions, and the reinvestment of excess current earnings, (b) preserve capital and avoid the risk of large loss, and (c) maintain sufficient liquidity to provide for all anticipated withdrawals as well as unexpected withdrawals.

To satisfy its long term objectives, the Foundation seeks investment returns through both capital appreciation and current yield. 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 5.0% for the year ended June 30, 2018.

The net asset classification of the Foundation's endowment funds as of June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowments	\$	\$91,690	\$688,417	\$780,107
Board designated endowments	6,323,810			6,323,810
 Total endowment funds	 <u>\$6,323,810</u>	 <u>\$91,690</u>	 <u>\$688,417</u>	 <u>\$7,103,917</u>

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS

(Continued)

For the Year Ended June 30, 2018

Changes in endowment net assets for the year ended June 30, 2018, include:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of the year	<u>\$6,137,170</u>	<u>\$77,459</u>	<u>\$745,860</u>	<u>\$6,960,489</u>
Investment gains (losses):				
Investment income	201,443	19,282	-	220,725
Investment gains (losses)	<u>238,797</u>	<u>21,641</u>	<u>2,843</u>	<u>263,281</u>
Total investment return	<u>440,240</u>	<u>40,923</u>	<u>2,843</u>	<u>484,006</u>
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	(313,886)	(26,692)	-	(340,578)
Reclassification of endowment assets	<u>60,286</u>	<u>-</u>	<u>(60,286)</u>	<u>-</u>
	<u>(253,600)</u>	<u>(26,692)</u>	<u>(60,286)</u>	<u>(340,578)</u>
Net assets, end of the year	<u><u>\$6,323,810</u></u>	<u><u>\$91,690</u></u>	<u><u>\$688,417</u></u>	<u><u>\$7,103,917</u></u>

14. Disclosure About Fair Value of Financial Instruments

U.S. generally accepted accounting principles (GAAP) requires the Foundation to disclose estimated fair values for all financial instruments. Under GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

The carrying amount of cash and cash equivalents approximate fair values because of the short term maturity of these investments. The carrying value of investments, which is fair value, is based upon quoted market prices, if available. If quoted market prices are not available, fair value is estimated using quoted prices for similar securities.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS

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For the Year Ended June 30, 2018

The fair values reported below for financial instruments were based on a variety of factors. In some cases, fair values have been estimated based on assumptions concerning the amount and the timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realized as of June 30, 2018, or that will be realized in the future.

The Foundation's financial instruments at June 30, 2018 were as follows:

	<u>Fair Value/ Estimated Market Value and Carrying Amount</u>
Cash and cash equivalents	\$280,476
Investments	\$7,056,203
Beneficial interest in assets held by others	\$111,197
Beneficial interest in charitable remainder trust	\$94,936

GAAP establishes a fair value hierarchy that prioritized the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1: Quoted Prices in Active Markets for Identical Assets; Level 2: Significant Other Observable Inputs; and Level 3: Significant Unobservable Inputs. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets and liabilities.

Fair Value Measured on a Recurring Basis

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments

The fair values of investments in money market, certificates of deposit, mutual funds, alternative investments, and other investments are based on quoted market prices for active markets, where available. If quoted market prices for active markets are not available, fair values are obtained from pricing services, based on quoted market prices of comparable instruments, bid/ask quotes, or the use of discounted cash flow models, using observable inputs such as current yields, credit risks, and prepayment speeds.

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
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For the Year Ended June 30, 2018

The following table presents the fair value measurements of investments and beneficial interest recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018:

	Fair Value	Fair Value Level
Money market	\$319,055	(1)
Certificates of deposit	128,000	(1)
Fixed mutual funds	1,811,170	(1)
Fixed income	118,011	(1)
Equity mutual funds	4,370,967	(1)
Alternative investments	301,561	(1)
Accrued income	7,439	(1)
	<u>\$7,056,203</u>	
Held by others:		
Beneficial interest held by others	\$111,197	(2)
Beneficial interest in charitable remainder trust	94,936	(2)
Total held by others	<u>206,133</u>	
	<u>\$7,262,336</u>	

OKLAHOMA FOUNDATION FOR EXCELLENCE, INC.
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15. Reclassification of Net Assets

Generally accepted accounting principles for not-for-profit organizations require that only external restrictions made by donors give rise to the classification of net assets as temporarily or permanently restricted net assets.

During the year ended June 30, 2018, it was determined that certain net assets which were previously recorded as unrestricted net assets should have been recorded as permanently restricted net assets and certain net assets which were previously recorded as permanently restricted net assets should have been recorded as unrestricted net assets. Upon subsequent analysis management has reclassified net assets by their proper classification. This reclassification has no effect on total net assets.

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Net assets as previously reported June 30, 2017	\$6,485,294	\$186,294	\$745,860	\$7,417,448
Reclassification of net assets to proper classification	60,286	_____	(60,286)	_____
Net assets, as reported July 1, 2017	\$6,545,580	\$186,294	\$685,574	\$7,417,448