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2016 Foundation Financial Statements

Southwestern Oklahoma State University

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**Southwestern Oklahoma State
University Foundation, Inc.**

**Financial Statements
with Independent Auditors' Reports**

December 31, 2016 and 2015



Southwestern Oklahoma State University Foundation, Inc.
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Independent Auditors' Report on Financial Statements

Board of Trustees
Southwestern Oklahoma State
University Foundation, Inc.
Weatherford, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Southwestern Oklahoma State University Foundation, Inc. (the Foundation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities 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 the 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.

Auditors' 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of 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 reasonable basis for our audit opinion.

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Board of Trustees
Southwestern Oklahoma State
University Foundation, Inc.
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwestern Oklahoma State University Foundation, Inc. as of December 31, 2016 and 2015, and the results of operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

H. L. & Company

Tulsa, Oklahoma
June 28, 2017



Southwestern Oklahoma State University Foundation, Inc.
Statements of Financial Position
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 280,125	\$ 342,618
Contributions receivable	100,707	147,825
Prepaid state income tax	—	2,930
Investments	19,015,417	18,154,229
Cash value, life insurance	114,413	108,995
Beneficial interest in perpetual trust	1,214,956	1,097,539
Capital assets, net	<u>654,061</u>	<u>641,298</u>
Total Assets	<u>\$21,379,679</u>	<u>\$20,495,434</u>
Liabilities		
Accounts payable and accrued expenses	5,272	—
Accounts payable to related party	44,692	4,684
Funds held for others	<u>—</u>	<u>—</u>
Total Liabilities	<u>49,964</u>	<u>4,684</u>
Net Assets		
Unrestricted		
Board-designated endowment		
Specific purposes	674,546	654,093
General	5,948	44,696
Undesignated	(17,312)	(478,295)
Temporarily restricted	3,847,176	3,636,512
Permanently restricted	<u>16,819,357</u>	<u>16,633,744</u>
Total Net Assets	<u>21,329,715</u>	<u>20,490,750</u>
Total Liabilities and Net Assets	<u>\$21,379,679</u>	<u>\$20,495,434</u>



Southwestern Oklahoma State University Foundation, Inc.
Statements of Activities
Years Ended December 31, 2016 and 2015

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Support				
Contributions	\$ 125,002	\$ 341,024	\$ 151,243	\$ 617,269
In-kind contributions	652,496	—	—	652,496
Sponsorship revenue	200,000	—	—	200,000
Program service revenue	337,120	—	—	337,120
Rent income	70,000	—	—	70,000
Investment income	48,690	279,327	30,026	358,043
Net appreciation on investments	90,280	496,522	39,768	626,570
Net appreciation on perpetual trust	—	55,000	117,417	172,417
Other income	6,147	1,528	184	7,859
Foundation fund management fee	123,816	(66,886)	(56,930)	—
Net assets released from restrictions	678,986	(678,986)	—	—
Total Revenues, Gains, and Other Support	<u>2,332,537</u>	<u>427,529</u>	<u>281,708</u>	<u>3,041,774</u>
Expenses				
Program services	1,463,413	—	—	1,463,413
Supporting services				
Management and general	544,000	—	—	544,000
Fundraising	195,396	—	—	195,396
Total Expenses	<u>2,202,809</u>	<u>—</u>	<u>—</u>	<u>2,202,809</u>
Change in Net Assets, before Transfers	129,728	427,529	281,708	838,965
Transfers	<u>312,960</u>	<u>(216,865)</u>	<u>(96,095)</u>	<u>—</u>
Change in Net Assets	442,688	210,664	185,613	838,965
Net Assets, Beginning of Year	<u>220,494</u>	<u>3,636,512</u>	<u>16,633,744</u>	<u>20,490,750</u>
Net Assets, End of Year	<u>\$ 663,182</u>	<u>\$ 3,847,176</u>	<u>\$ 16,819,357</u>	<u>\$ 21,329,715</u>



Southwestern Oklahoma State University Foundation, Inc.
Statements of Activities
Years Ended December 31, 2016 and 2015

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Support				
Contributions	\$ 132,696	\$ 493,503	\$ 525,377	\$ 1,151,576
In-kind contributions	447,379	—	—	447,379
Sponsorship revenue	200,000	—	—	200,000
Program service revenue	368,225	—	—	368,225
Rent income	70,000	—	—	70,000
Investment income	43,833	266,291	25,930	336,054
Net appreciation on investments	(13,143)	(474,289)	28,651	(458,781)
Net appreciation on perpetual trust	—	60,000	(80,797)	(20,797)
Other income	13,267	2,507	204	15,978
Foundation fund management fee	125,976	(67,187)	(58,789)	—
Net assets released from restrictions	877,249	(877,249)	—	—
Total Revenues, Gains, and Other Support	<u>2,265,482</u>	<u>(596,424)</u>	<u>440,576</u>	<u>2,109,634</u>
Expenses				
Program services	1,667,496	—	—	1,667,496
Supporting services				
Management and general	547,380	—	—	547,380
Fundraising	43,916	—	—	43,916
Total Expenses	<u>2,258,792</u>	<u>—</u>	<u>—</u>	<u>2,258,792</u>
Change in Net Assets, before Transfers	6,690	(596,424)	440,576	(149,158)
Transfers	<u>(218,402)</u>	<u>218,402</u>	<u>—</u>	<u>—</u>
Change in Net Assets	(211,712)	(378,022)	440,576	(149,158)
Net Assets, Beginning of Year	<u>432,206</u>	<u>4,014,534</u>	<u>16,193,168</u>	<u>20,639,908</u>
Net Assets, End of Year	<u>\$ 220,494</u>	<u>\$ 3,636,512</u>	<u>\$ 16,633,744</u>	<u>\$ 20,490,750</u>



Southwestern Oklahoma State University Foundation, Inc.
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Decrease in net assets	\$ 838,965	\$ (149,158)
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	20,257	21,112
Net appreciation on investments	(621,152)	462,289
Appreciation in cash surrender value of life insurance	(5,418)	(5,491)
Contributions restricted for endowment	(151,243)	(525,377)
Non-cash contribution	(40,866)	(441,510)
(Gain)/loss on beneficial interest in perpetual trust	(117,417)	80,797
Changes in		
Contributions receivable	47,118	(59,195)
Interest receivable	—	—
Prepaid state income tax	2,930	(2,930)
Funds held for others	—	(78,408)
Accounts payable and accrued expenses	5,272	—
Accounts payable to related party	40,008	(110,596)
Net Cash used in Operating Activities	<u>18,454</u>	<u>(808,467)</u>
Cash Flows from Investing Activities		
Purchase of investments	(8,568,620)	(8,071,001)
Proceeds from sales and maturities of investments	8,336,430	7,965,740
Receipts on note receivable from related party	—	—
Proceeds from sales of assets held for sale	—	1,983
Net Cash used in Investing Activities	<u>(232,190)</u>	<u>(103,278)</u>
Cash Flows from Financing Activities		
Contributions restricted for endowment	151,243	525,377
Net Cash Provided by Investing Activities	<u>151,243</u>	<u>525,377</u>
Net Change in Cash and Cash Equivalents	(62,493)	(386,368)
Cash and Cash Equivalents at Beginning of Year	<u>342,618</u>	<u>728,986</u>
Cash and Cash Equivalents at End of Year	\$ <u>280,125</u>	\$ <u>342,618</u>



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies

Organization

Southwestern Oklahoma State University Foundation, Inc. (the "Foundation") is organized for the benefit of Southwestern Oklahoma State University (the "University"), Weatherford, Oklahoma, branch campus in Sayre, Oklahoma, its faculty, its student body, and its programs. The Foundation provides scholarships and support and enhances the further development of the University. The Foundation receives contributions from the public which are generally to be used for the benefit of the University. The Foundation also receives certain program service revenues which support the various departmental activities at the University.

The Foundation acts primarily as a fundraising organization, soliciting, receiving, managing, and disbursing contributions on behalf of the University. Distributions of amounts held in the funds of the Foundation are subject to the approval of the Foundation and the availability of monies. Accordingly, the accompanying financial statements generally reflect expenditures which have been submitted to and approved by the Foundation as of the financial reporting date.

Although the University does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

Accounting Standards Codification

The Foundation follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The ASC provides the single source of authoritative accounting principles generally accepted in the United States of America ("U.S. GAAP") for nongovernmental entities and supersedes all other previously issued non-SEC accounting and reporting guidance.

Basis of Presentation

The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with U.S. GAAP, and accordingly reflect all significant receivables, payables and other assets and liabilities. To ensure the observance of limitations and restrictions placed on the use of available resources, the Foundation maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the process by which resources for various purposes are classified for accounting purposes into funds that are maintained in accordance with the activities or objectives of the Foundation.

Net Asset Classifications

The Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") was enacted in the state of Oklahoma effective November 1, 2007 ("OK UPMIFA"). The Foundation's Board of Trustees' (the "Trustees") interpretation of OK UPMIFA and other required endowment disclosures are included in Note 8.



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Net assets, revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets: Net assets for which there are no donor-imposed restrictions that the assets be used for a specific purpose or held for a certain period of time. Contributions received with time and/or purpose restrictions which are fully expended in the same period are classified as unrestricted.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

Beneficial Interest in Perpetual Trust

The Foundation is the beneficiary of a perpetual trust which is not in the possession of the Foundation. The Foundation has an irrevocable right to a portion of the net income from the trust. The Foundation's interest in the trust is recorded at fair value of the estimated future cash flows which is measured using the fair value of the underlying trust assets adjusted for the Foundation's beneficial interest percentage of the total trust. Under the terms of the trust agreement the trust generally distributes 50% of the annual income to the beneficiaries and the other 50% is reinvested and added to the trust's corpus. The beneficial interest is classified as permanently restricted net assets and distributions are classified as temporarily restricted investment income from perpetual trust in accordance with the donor's purpose restriction. Changes in the fair market value of the beneficial interest are recorded as permanently restricted gain or loss on beneficial interest in perpetual trust in the statement of activities.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received by the Foundation. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Transfers of assets under conditional promises, which are received by the Foundation prior to fulfilling these conditions, are recorded as a liability (i.e. unearned revenue) until the conditions are substantially met. Contributions of assets other than cash are recorded at the estimated fair value on the gift date. Contributions to be received after one year are recorded at the present value of their estimated future cash flows using a discount rate which will commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in the same net asset class and fund as the original contribution. An allowance is made for uncollectible contributions based upon management's judgement and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Contributions are reported as increases in the appropriate net asset category. Expenses are reported as decreases in unrestricted net assets. Absent explicit donor stipulations to the contrary, temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Gifts of property and equipment are recorded as unrestricted support unless explicit donor stipulations specify how the assets must be used, or how long the assets must be held, in which case the gift is recorded as restricted support. Expirations of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Contributed services are recognized when (1) they create or enhance a nonfinancial asset and/or (2) required specialized skills, are provided by individuals possessing those skills and would typically need to be purchased had they not been provided by contributions. Many individuals volunteer their time and perform a variety of tasks that assist the Foundation, but these services do not meet the criteria for recognition as contributed services. The Foundation received no significant contributed services meeting the specified criteria in either 2016 or 2015.

The Foundation recognizes all services received from personnel of the University that directly benefit the Foundation. The amount of in-kind contributions was determined based on the cost recognized for services and facilities provided by the University. In-kind expenses are allocated on a functional basis consistent with the allocation of resources expended on all other programs and activities. The Foundation recorded \$652,496 and \$447,379 for in-kind contributions and related in-kind expenses for 2016 and 2015, respectively.

Investments

Investments consist of cash and cash equivalent funds, certificates of deposit, government agency securities, corporate bonds, mutual funds, common and preferred stock, structured investments in unsecured notes, an annuity contract, and investments in private equity real estate and real estate investment trusts. Investments are stated at fair value as determined by the fund and/or investment manager and realized gains and losses on sales of investments are calculated on the first-in, first-out basis or the average cost basis. Interest and dividend income in the statements of activities is reported net of investment management and custodial fees which totaled \$116,531 in 2016 and \$146,284 in 2015.



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Investment Revenue

Income and gains on investments are reported as increases in permanently restricted net assets if the terms of the gift that gave rise to the investment require such amounts be added to the permanent endowment. Income and gains are reported as increases in temporarily restricted net assets if the terms of the gift or applicable law imposed restrictions on the use of the income and as increases in unrestricted net assets in all other cases, except in the case of income earned on donor-restricted endowment funds which is classified as temporarily or permanently restricted dependent upon the donor's restriction(s).

Generally, losses on investments of endowments reduce temporarily restricted net assets to the extent donor-imposed temporary restrictions on the net appreciation of investments have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets. Subsequent investment gains are applied first to unrestricted net assets to the extent that losses have previously been recognized, and then to temporarily restricted net assets.

Office Facility and Staff Support

The Foundation and University operate under an agreement that the University will provide for the housing of the Foundation records, administrative and secretarial support, as well as office space and support services. The Foundation also provides monies for scholarship support and other program needs of the University which is in excess of the benefits provided by the University. All costs incurred for University programs are included in program expenses. No additional accounting entries are made to record the benefits received from the University.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased, excluding cash and cash equivalent funds held in the Foundation's investment portfolio, to be cash equivalents.

Marketable Securities

Marketable securities are stated at fair value. Fair values are generally determined based upon quoted market prices. Realized gains and losses on sales of marketable securities are computed on the first-in, first-out basis. The Foundation utilizes various investment instruments. Marketable securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of marketable securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position. Significant fluctuations in fair values could occur from year to year and the amounts the Foundation will ultimately realize could differ materially.



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and has been determined not to be a private foundation under Section 509(a) of the Code. Generally, all revenue earned outside the purpose for which the Foundation is created is taxable as earned income.

Property and Equipment

It is the Foundation's policy to capitalize property and equipment additions with a cost basis, or fair value on the gift date if donated, which exceed \$5,000. Property and equipment is depreciated using the straight-line methods as follows:

Office equipment	10 years
Buildings	44 years
Software	5 years

Real Property

In 2016, the Foundation received donated vacant land and mineral rights, each with estimated fair values of \$20,000 and \$13,020 at December 31, 2016, respectively. These assets are carried at cost or fair value on the contribution date. The Foundation's management has entered into an active plan to sell the vacant land. At this time, the mineral rights will be retained by the Foundation. No attempt is made by the Foundation's management to revalue the real property assets at subsequent dates prior to transfer or sale due to the prohibitive cost of obtaining periodic appraisals. However, the Foundation's management is of the opinion that revaluation of all of the real property would not have a significant impact on the Foundation's statements of financial position or changes in net assets. See Note 9 for discussion on subsequent events and details of the sale of the vacant land subsequent to year end.

Administrative Fee

The Foundation assess an annual Fund Management Fee ("Fee"). The Fee is charged to all funds – endowed or otherwise, and is used to defray general and administrative expenses of the Foundation. The Fee is assessed annually at a rate of .625% (.00625) of the January 1st fund balances greater than or equal to \$1,000. For the endowed and temporarily restricted funds, this fee is accounted for as a transfer between permanently restricted and temporarily restricted net assets to unrestricted net assets.



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The Foundation follows ASC Topic 820, *Fair Value Measurements*, which provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The inputs to the three levels of the fair value hierarchy under Topic 820 are described as follows:

- Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from, or corroborated by, observable market data by correlation to other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Unobservable and significant to the fair value measurement.

The Foundation has certain investments which are measured at net asset value per share ("NAV"). If the Foundation has the ability to redeem its investment with the investee at NAV at the measurement date or within ninety days of the measurement date, the fair value of the asset is categorized as a Level 2 fair value measurement. If the Foundation will never have the ability to redeem its investment with the investee at NAV or the Foundation cannot redeem its investment within ninety days of the measurement date, the Foundation categorizes the asset as a Level 3 measurement.

Financial assets and liabilities carried at fair value on a recurring basis include investments and beneficial interest in perpetual trust. The Foundation had no assets or liabilities carried at fair value on a non-recurring basis at December 31, 2016 or 2015.

Accounting for Uncertain Tax Positions

Management has evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that required adjustment to or disclosure in the financial statements to comply with the provisions of this guidance. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ending on or before December 31, 2012.



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk

The Foundation maintains cash in bank deposit accounts that, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash or cash equivalents.

Management 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 disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change include the valuation of investments, beneficial interest in perpetual trust, and contributions receivable. Investments and beneficial interest in perpetual trust in general are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments and beneficial interest, it is reasonably possible that changes in the values of these assets will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position. Significant fluctuations in fair values could occur from year to year, and the amounts the Foundation will ultimately realize could differ materially. Management's estimate of contributions receivable and the related allowance for doubtful accounts is based on considerations of all relevant available information and an analysis of the collectability of individual contributions, which arise primarily from pledges at the financial statement date.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized in the statements of activities. Costs are allocated between program services, management and general, and fundraising based on management's evaluation of the resources expended in the related activities. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation.

Subsequent Events

Subsequent events have been evaluated through June 28, 2017, which is the date the financial statements were issued.



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 2: Cash and Cash Equivalents

The Foundation maintains several bank accounts. The table below is designed to disclose the level of custody credit risk assumed by the Foundation based upon how its deposits were insured at December 31, 2016 and 2015. FDIC regulations state that time and savings accounts are insured up to a \$250,000 per depositor, per insured bank.

Category 1: Insured by FDIC or collateralized with securities held by the Foundation or by its agent in its name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Foundation's name.

Category 3 – Uninsured and uncollateralized.

Type of Deposits	Bank Balance	Carrying Balance	Custody Credit Risk Category		
			1	2	3
December 31, 2016					
Demand Deposits	\$ 277,396	\$ 280,125	\$ 277,396	\$ —	\$ —
Totals	\$ 277,396	\$ 280,125	\$ 277,396	\$ —	\$ —
December 31, 2015					
Demand Deposits	\$ 267,196	\$ 342,618	\$ 267,196	\$ —	\$ —
Totals	\$ 267,196	\$ 342,618	\$ 267,196	\$ —	\$ —

Note 3: Contributions Receivable

Unconditional promises to give, including amounts due under pledge agreements with donors, include the following at December 31:

	2016	2015
Due in less than one year	\$ 100,022	\$ 72,825
Due in one to five years	—	75,000
	100,022	147,825
Less: Discount to net present value (%)	—	—
Less: Allowance for uncollectible contributions	—	—
	\$ 100,022	\$ 147,825



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 3: Contributions Receivable (Continued)

Gross unconditional contributions receivable are comprised of the following at December 31:

	2016	2015
Unrestricted		
Foundation support	\$ 50	\$ —
Total unrestricted	50	—
Temporarily restricted		
SWOSU Fitness Center equipment	51,722	72,825
Everett Dobson Golf Training facility	43,150	75,000
Scholarships	100	—
Total temporarily restricted	94,972	147,825
Permanently restricted		
Scholarships	5,000	—
Total permanently restricted	5,000	—
Total contributions receivable	\$ 100,022	\$ 147,825

No provision has been made to establish an allowance for doubtful accounts as the Foundation believes all contributions to be fully collectible within two years.

Unrestricted pledges to be received in future periods are classified as temporarily restricted until the funds are received at which time they are reclassified to unrestricted, unless specifically designated for the current period by the donor.

Note 4: Fair Value Measurement

The methods and assumptions used to estimate the fair value of assets and liabilities in the financial statements, including a description of the methodologies used for the classifications within the fair value hierarchy for financial instruments carried at fair value, are as follows:

Cash and cash equivalents, interest receivable: The assets' carrying amounts approximate fair value due to their short maturities.

Cash surrender value of life insurance: The Foundation is the beneficiary of a number of life insurance policies. The carrying value of the life insurance policies is the cash surrender value on the policies and as such approximates fair value.

Accounts receivable: Accounts receivable are carried at cost due to its short maturity (less than one year).



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 4: Fair Value Measurement (Continued)

Investments: Investments are carried at fair value and are based on quoted market prices, when available, or the best estimate of fair value as determined by the investment and/or fund manager. Generally, quoted market prices are available for cash and cash equivalents funds, common and preferred stocks, and exchange traded index and mutual funds and as such are classified as Level 1 in the fair value hierarchy. The fair values of certificates of deposit are determined using the income approach. The key inputs include interest rates, maturity dates, and yield curves and as such are classified as Level 1 or Level 2 depending on the maturity date. The fair value of the annuity contract is determined using the income approach and is based on the current cash surrender value as determined by the investment manager and is classified as Level 3. The Foundation's interest in the limited liability company and the pooled funds are based on net asset value ("NAV") per share as provided by the fund manager; however, in certain circumstances, such as when the fund is in liquidation, fair values are determined using the income approach (i.e. estimated future cash flows). If the fair value of the underlying assets are transparent and have readily determinable fair values and the Foundation can redeem the investment at NAV within ninety days of the measurement date, the funds are classified as Level 2 and in all other cases are classified as Level 3.

Structured investments in unsecured notes are valued using the market approach or the income approach and are provided to the Foundation by the investment manager. Whenever possible, fair values are determined using the market approach and the key inputs are based on an underlying index and maturity or by analysis of documented trade history in the exact security and as such are classified as Level 2. In all other cases, fair values are determined using the income approach and are valued using fundamental analysis of investments based on information provided by fund manager and are classified as Level 3.

Assets held for sale: The Foundation's property held for sale is carried at fair value at December 31, 2016. The fair value was determined using the sales comparison approach and is based on the average price per square foot of comparable sales in an open market.

Contributions receivable: The asset is carried at cost net of a discount to net present value using a rate which is commensurate with the risk involved on the gift date and an allowance for uncollectible accounts at the financial reporting date. Fair value is the price a market participant would pay to acquire the right to receive the cash flows inherent in the promise to pay the Foundation and due to inclusion of a discount to net present value and allowance for uncollectible accounts the carrying value approximates fair value.



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 4: Fair Value Measurement (Continued)

Beneficial interest in perpetual trust: The beneficial interest is carried at fair value which is based on the fair value of the underlying trust assets. The fair value of the underlying trust assets are based on the quoted market prices when available, qualified appraisals on a periodic basis, or the best estimate of fair value as determined by the trustee and/or the Foundation's management. The fair value of the beneficial interest in perpetual trust is the fair value of the underlying assets adjusted for the Foundation's respective beneficial percentage of the trust. Due to the significant unobservable inputs required to estimate the expected future cash receipts from the trust, the Foundation's beneficial interest is classified as Level 3 in the hierarchy.

Accounts payable and accrued liabilities: The carrying amount of current liabilities approximates fair value due to its short maturity.

Funds held for others: The liability is carried at fair value which is based on the fair value of the cash and investment assets held by the Foundation for the benefit of the agency. The specific assets held for the benefit of the agency have been classified within the hierarchy for investments (as discussed above). The related and associated liability is classified as Level 2 in the hierarchy as the principal inputs (i.e., fair value of the cash and investments) are corroborated by observable market data. (The assets related to this liability are held in a separate investment account and are not a part of the Foundation's investment pool.) These assets were withdrawn and the account closed in February 2015.

Assets and liabilities measured at fair value are classified within the fair value hierarchy as follows:

	Level 1	As of December 31, 2016 Level 2	Level 3	Total
Assets				
<i>Assets recorded at fair value on a recurring basis</i>				
Investments:				
Cash and cash equivalents	\$ 546,109	\$ —	\$ —	\$ 546,109
Certificates of deposits	—	767	—	767
Common and preferred stock				
Domestic	5,802,077	—	—	5,802,077
International	3,180,066	—	—	3,180,066
Equity mutual funds	—	—	—	—
Fixed income (notes, bonds, mutual funds)	4,337,001	—	—	4,337,001
Index Funds	1,892,203	—	—	1,892,203
Annuity Contract	—	—	238,018	238,018
Pooled funds	—	—	—	—
Interest in limited liability company	—	—	483,780	483,780
Structured investments	—	1,807,867	—	1,807,867
Real estate investment trust (REIT) funds	—	—	727,529	727,529
Total Investments	15,757,456	1,808,634	1,449,327	19,015,417
Beneficial interest in perpetual trust	—	—	1,214,956	1,214,956
<i>Assets recorded at fair value on a non-recurring basis</i>				
Assets held for sale	—	—	20,000	20,000
Total assets carried at fair value	\$15,757,456	\$ 1,808,634	\$2,684,283	\$20,250,373
Liabilities				
Funds held for others	\$ —	\$ —	\$ —	\$ —
Total liabilities carried at fair value	\$ —	\$ —	\$ —	\$ —



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 4: Fair Value Measurement (Continued)

	As of December 31, 2015			
Assets	Level 1	Level 2	Level 3	Total
<i>Assets recorded at fair value on a recurring basis</i>				
Investments:				
Cash and cash equivalents	\$1,002,854	\$ —	\$ —	\$1,002,854
Certificates of deposits	—	758	—	758
Common and preferred stock				
Domestic	7,013,278	—	—	7,013,278
International	2,723,803	—	—	2,723,803
Equity mutual funds	—	—	—	—
Fixed income (notes, bonds, mutual funds)	3,944,719	—	—	3,944,719
Index Funds	1,076,726	—	—	1,076,726
Annuity Contract	—	—	225,917	225,917
Pooled funds	—	—	—	—
Interest in limited liability company	—	—	270,415	270,415
Structured investments	—	1,574,957	—	1,574,957
Real estate investment trust (REIT) funds	—	—	320,802	320,802
Total Investments	15,761,380	1,575,715	817,134	18,154,229
Beneficial interest in perpetual trust	—	—	1,097,539	1,097,539
<i>Assets recorded at fair value on a non-recurring basis</i>				
Assets held for sale	—	—	—	—
Total assets carried at fair value	\$15,761,380	\$1,575,715	\$1,914,673	\$19,251,768
Liabilities				
Funds held for others	\$ —	\$ —	\$ —	\$ —
	\$ —	\$ —	\$ —	\$ —



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 4: Fair Value Measurement (Continued)

The following table summarizes the changes in the fair value of the Foundation's Level 3 financial assets. The Foundation has no liabilities classified as Level 3 in 2016 or 2015.

	Beneficial Interest in Perpetual Trust	Annuity Contract	Structured Investments	Interest in Limited Liability Company	Real Estate Investment Trusts (REIT)	Assets Held for Sale
Balance at January 1, 2015	\$ 1,178,336	\$ 237,273	\$ 83,783	\$ 340,606	\$ 325,639	\$ —
Contributions	—	—	—	—	—	—
Purchase of investments, at cost	—	—	—	—	224,702	—
Return of capital investment	—	—	—	(86,789)	—	—
Sales proceeds of investments	—	—	(85,500)	(60,233)	(238,893)	—
Loss on beneficial interest in perpetual trust -included in earnings	(80,797)	—	—	—	—	—
Realized gain on investments -included in earnings	—	—	10,500	60,233	23,659	—
Unrealized gain/(loss) on investments -included in earnings	—	(11,356)	(8,783)	16,598	(14,305)	—
Balance at December 31, 2015	\$ 1,097,539	\$ 225,917	\$ —	\$ 270,415	\$ 320,802	\$ —
Contributions	—	—	—	—	—	20,000
Purchase of investments, at cost	—	—	—	250,000	672,633	—
Return of capital Investment	—	—	—	(71,829)	—	—
Sales proceeds of Investments	—	—	—	—	(316,314)	—
Unrealized gain on beneficial interest in trust-included in earnings	117,417	—	—	—	—	—
Realized gain on investments -included in earnings	—	—	—	—	15,801	—
Unrealized gain on investments -included in earnings	—	12,101	—	35,194	34,607	—
Balance at December 31, 2016	\$ 1,214,956	\$ 238,018	\$ —	\$ 483,780	\$ 727,529	\$ 20,000

The summary of changes in fair value of Level 3 assets has been prepared to reflect the activity in the same categories as those provided in the statements of activities.



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 4: Fair Value Measurement (Continued)

The Foundation's investments in certain entities that calculate net assets value per share which are measured at fair value include the following:

	Fair Value December 31,		Redemption Frequency	Redemption Notice Period
	2016	2015		
Interest in private limited liability company (a)	\$ 483,780	\$ 270,415	Illiquid until sale of assets	N/A
Interest in private Real Estate Investment Trust (REIT) (b)	364,189	—	Illiquid; Restricted security with time and written consent constraints	N/A
	<u>\$ 847,969</u>	<u>\$ 270,415</u>		

- (a) This private limited liability company was formed for the purpose of investing in and renting residential rental properties, and incidental leasing of commercial retail space and shall continue in existence until the earlier of the manager's decision to dissolve the company, or the sale of substantially all the Company's assets. There is no opportunity for redemption of funds until substantially all assets are sold. The Foundation has two separate investments with this company. The redemption of the 2012 investment is anticipated to take place by the end of 2017. The redemption of the 2016 investment is anticipated to take place between 2017 and 2023. The company has no short positions or unfunded commitments.
- (b) This private Real Estate Investment Trust (REIT) was formed for the purpose of acquiring freestanding, single-tenant, net-leased properties. It is focused on generating predictable, tax-sheltered cash flow and attractive total return for shareholders. The REIT is managed by a limited liability company and has no direct employees. Shares are offered via private placement, and new investors are accepted on a monthly basis. Shares when issued are "restricted securities" as such term is defined in Rule 144 and are therefore subject to substantial restrictions on transfer both under the securities laws and to comply with REIT requirements. There is no trading market for the shares, nor is one expected to develop.



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 5: Land, Building, and Equipment

Property and equipment consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 120,000	\$ 120,000
Buildings	729,549	729,549
Office equipment	4,185	4,185
Leasehold improvements	32,720	32,720
Software	<u>95,136</u>	<u>95,136</u>
	981,590	981,590
Less accumulated depreciation	<u>(360,549)</u>	<u>(340,292)</u>
	<u>\$ 621,041</u>	<u>\$ 641,298</u>

Note 6: Related Party Transactions

Substantially all expenditures are incurred for the benefit of the University. University management and faculty are very much involved in the operations of the Foundation and are considered related parties. Accounts payable to related party of \$49,964 and \$4,684 at December 31, 2016 and 2015, respectively, reflect amounts to be paid to the University.

Rental Property: The Foundation acquired property and completed construction of a building during 2003. The Foundation has a lease agreement with the University to lease the property for a one year term expiring on June 30, 2017. The lease provides for annual rental payments of \$70,000 payable in monthly installments of \$5,833. The Foundation is to provide for any significant repairs and maintenance. The University is to provide for all utilities, services and other operating costs including general repair and maintenance. Terms and conditions of the lease are to be reviewed annually. At December 31, 2016, the University is committed to pay rentals, which total \$35,000 through June 30, 2017.



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 7: Net Assets

Unrestricted net assets consist of the following at December 31:

	2016	2015
Scholarship	\$ 192,764	\$ (141,266)
Foundation operations	(474,463)	(552,969)
General University support	136,000	125,027
Endowed Chairs	658,851	629,461
Athletic support	150,030	160,241
	<u>\$ 663,182</u>	<u>\$ 220,494</u>

Temporary restricted net assets consist of the following at December 31:

	2016	2015
Scholarship	\$ 2,399,513	\$ 2,060,546
Foundation operations	89,921	239,279
General University support	762,831	766,573
Endowed Chairs	504,084	452,489
Athletic support	90,827	117,625
	<u>\$ 3,847,176</u>	<u>\$ 3,636,512</u>

Permanently restricted net assets consist of the following at December 31:

	2016	2015
Scholarship	\$ 13,131,903	\$ 12,948,528
Foundation operations	406,545	399,297
General University support	266,449	267,281
Endowed Chairs	2,789,544	2,788,750
Athletic support	224,916	229,888
	<u>\$ 16,819,357</u>	<u>\$ 16,633,744</u>



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 8: Endowment Disclosures

The Foundation's endowment consists of approximately 180+ endowment funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Trustees to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Trustees of the Foundation have chosen to preserve 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.

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

- 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;
- The investment policies of the Foundation.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results which generate a dependable, increasing source of income and appreciation while assuming a moderate level of investment risk. The stated return objective of this policy is the Consumer Price Index plus three percent net of fees. Actual returns in any given year may vary from this amount.



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 8: Endowment Disclosures (Continued)

Strategies for Achieving Objectives

To satisfy its long-term rate of return objectives, the Foundation relies on a strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation formally adopted a revised investment policy statement on December 1, 2016, which includes the following diversified asset allocation and ranges: *equities* (range between 40% up to 75%); *fixed income* (range between 10% up to 50%); *cash equivalents* (range between 0% up to 20%); and *alternative investments* (range between 0% up to 30%).

Spending Policy

In general, for 2016 and 2015, the Foundation has a policy of appropriating for distribution each year, eighty-five percent of the earnings from each endowment fund for the donor-restricted purpose, if any. The remaining fifteen percent of the net earnings are held in the endowment fund in order to provide for inflation and future growth. The Foundation honors the specific requests of each donor, recognizes all investment income, realized and unrealized gains and/or losses as temporarily or permanently restricted based on donor-restrictions, and makes distributions accordingly. In the absence of donor-restrictions on investment income all earnings from donor-restricted endowment funds are classified as temporarily restricted until appropriated for expenditure. All earnings on board-designated endowment funds are classified as unrestricted.

For 2016, the Foundation has a spending policy of appropriating for expenditure each year the equivalent of up to 5% of the rolling 60 month average balance of the endowment fund's fair value as of the immediately preceeding year ended December 31.

Endowment net assets composition as of December 31, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (221,066)	\$ 2,562,365	\$ 15,604,401	\$ 17,945,700
Board-designated endowment funds	680,493	6,311	—	686,804
Total endowment funds	<u>\$ 459,427</u>	<u>\$ 2,568,676</u>	<u>\$ 15,604,401</u>	<u>\$ 18,632,504</u>



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 8: Endowment Disclosures (Continued)

Changes in endowment net assets during 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 196,411	\$ 2,272,494	\$ 15,536,205	\$ 18,005,110
Investment return:				
Interest and dividends	11,971	279,289	30,026	321,286
Net realized and unrealized gains	20,680	496,522	39,768	556,970
Total investment returns	32,651	775,811	69,794	878,256
Contributions	—	47,168	151,243	198,411
Provision for losses on uncollectible pledge	—	—	—	—
Program service revenue	540	—	—	540
Other income	6,147	1,528	184	7,859
Reclassification – donor directed	66,457	34,344	(96,095)	4,706
Appropriation of endowment assets for expenditure	157,221	(562,669)	(56,930)	(462,378)
Endowment net assets, end of year	\$ 459,427	\$ 2,568,676	\$ 15,604,401	\$ 18,632,504

Endowment net assets composition as of December 31, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (502,378)	\$ 2,266,184	\$ 15,536,205	\$ 17,300,011
Board-designated endowment funds	698,789	6,310	—	705,099
Total endowment funds	\$ 196,411	\$ 2,272,494	\$ 15,536,205	\$ 18,005,110

Changes in endowment net assets during 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 401,996	\$ 2,655,013	\$ 15,014,832	\$ 18,071,841
Investment return:				
Interest and dividends	12,084	266,282	25,930	304,296
Net realized and unrealized gains (losses)	(18,634)	(474,289)	28,651	(464,272)
Total investment returns	(6,550)	(208,007)	54,581	(159,976)
Contributions	—	66,152	525,377	591,529
Provision for losses on uncollectible pledge	—	—	—	—
Program service revenues	2,460	—	—	2,460
Other income	12,450	2,507	204	15,161
Reclassification – donor directed	—	—	—	—
Appropriation of endowment assets for expenditure	(213,945)	(243,171)	(58,789)	(515,905)
Endowment net assets, end of year	\$ 196,411	\$ 2,272,494	\$ 15,536,205	\$ 18,005,110



Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

Note 8: Endowment Disclosures (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or OK UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$367,188 and \$502,378 at December 31, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations, a prior year significant change of securities in the investment portfolio, and continued appropriation that was deemed prudent and necessary for the programs of the Foundation.

Note 9: Subsequent Event

On April 6, 2017, the Foundation closed on the sale of the vacant land classified as assets held for sale in the statement of financial position to an independent third party for \$18,000.

Note 10: Recent Accounting Pronouncements

The FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which is effective for Not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The Foundation is currently evaluating the impact of implementation of ASU 2016-14 on its financial statements.

