

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

Financial Statements
with Independent Auditors' Reports

December 31, 2018 and 2017



**HINKLE &
COMPANY**
Strategic ^{PC}
Business Advisors

Southwestern Oklahoma State University Foundation, Inc.
Table of Contents
December 31, 2018 and 2017

Independent Auditors' Report on Financial Statements 1

Financial Statements

- Statements of Financial Position 3
- Statements of Activities 4
- Statements of Functional Expense 6
- Statements of Cash Flows 8
- Notes to Financial Statements 9



**HINKLE &
COMPANY**

Strategic ^{PC}
Business Advisors

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., which comprise the statements of financial position as of December 31, 2018 and 2017, 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.

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 and *Government Auditing Standards* issued by the Comptroller General of the United States. 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 auditors' 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.

5028 E. 101st Street

Tulsa, OK 74137

TEL: 918.492.3388

FAX: 918.492.4443

www.hinklecpas.com

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 respective financial position of the Southwestern Oklahoma State University Foundation, Inc. as of December 31, 2018 and 2017 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.

Hill & Company, PC

Tulsa, Oklahoma
September 27, 2019



Southwestern Oklahoma State University Foundation
Statements of Financial Position
Years Ended December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 441,096	\$ 401,302
Contributions receivable	414,045	73,305
Investments	20,406,719	22,070,782
Cash value, life insurance	125,210	119,926
Beneficial interest in perpetual trust	1,189,883	1,309,533
Capital assets, net	737,645	600,784
Other assets	7,812	10,416
Total Assets	23,322,410	24,586,048
Liabilities		
Accounts payable and accrued expenses	54,826	3,162
Accounts payable to related party	-	134,183
Total Liabilities	54,826	137,345
Net Assets		
Without donor restrictions		
Board-designated endowment		
Specific purposes	718,285	764,948
General	12,854	11,785
Undesignated	26,425	345,273
With donor restrictions	22,510,020	23,326,697
Total net assets	23,267,584	24,448,703
Total Liabilities and		
Net Assets	\$ 23,322,410	\$ 24,586,048

Southwestern Oklahoma State University Foundation
Statements of Activities
Years Ended December 31, 2018 and 2017

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions	\$ 288,036	\$ 1,244,679	\$ 1,532,715
In-kind contributions	557,446	-	557,446
Sponsorship revenue	200,000	-	200,000
Program service revenue	221,358	-	221,358
Rent income	70,250	-	70,250
Investment income	49,638	368,671	418,309
Net appreciation on investments	(209,763)	(1,510,256)	(1,720,019)
Net appreciation on perpetual trust	-	(49,650)	(49,650)
Other income	20,263	1,980	22,243
Foundation fund management fee	130,166	(130,166)	-
Net assets released from restrictions	693,726	(693,726)	-
Total Revenues	<u>2,021,120</u>	<u>(768,468)</u>	<u>1,252,652</u>
Expenses			
Program services	1,595,627	-	1,595,627
Supporting services			
Management and general	459,945	-	459,945
Fundraising	378,199	-	378,199
Total Expenses	<u>2,433,771</u>	<u>-</u>	<u>2,433,771</u>
Change in Net Assets, before Transfers	(412,651)	(768,468)	(1,181,119)
Transfers	<u>48,209</u>	<u>(48,209)</u>	<u>-</u>
Change in Net Assets	(364,442)	(816,677)	(1,181,119)
Net Assets, Beginning of Year	<u>1,122,006</u>	<u>23,326,697</u>	<u>24,448,703</u>
Net Assets, End of Year	<u>\$ 757,564</u>	<u>\$ 22,510,020</u>	<u>\$ 23,267,584</u>

Southwestern Oklahoma State University Foundation
Statements of Activities
Years Ended December 31, 2018 and 2017

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions	\$ 109,821	\$ 798,663	\$ 908,484
In-kind contributions	521,437	-	521,437
Sponsorship revenue	200,000	-	200,000
Program service revenue	417,221	-	417,221
Rent income	70,000	-	70,000
Investment income	42,388	299,899	342,287
Net appreciation on investments	338,425	2,403,774	2,742,199
Net appreciation on perpetual trust	-	164,577	164,577
Other income	9,911	2,223	12,134
Foundation fund management fee	112,364	(112,364)	-
Net assets released from restrictions	704,158	(704,158)	-
Total Revenues	<u>2,525,725</u>	<u>2,852,614</u>	<u>5,378,339</u>
Expenses			
Program services	1,477,419	-	1,477,419
Supporting services			
Management and general	481,023	-	481,023
Fundraising	300,909	-	300,909
Total Expenses	<u>2,259,351</u>	<u>-</u>	<u>2,259,351</u>
Change in Net Assets, before Transfers	266,374	2,852,614	3,118,988
Transfers	192,450	(192,450)	-
Change in Net Assets	458,824	2,660,164	3,118,988
Net Assets, Beginning of Year	<u>663,182</u>	<u>20,666,533</u>	<u>21,329,715</u>
Net Assets, End of Year	<u>\$ 1,122,006</u>	<u>\$ 23,326,697</u>	<u>\$ 24,448,703</u>

Southwestern Oklahoma State University Foundation
Statements of Functional Expenses
Years Ended December 31, 2018 and 2017

	2018			
	Program Services	Management & General	Fundraising	Total
Accounting software and fees	\$ -	\$ 120	\$ -	\$ 120
Advertising and promotion	7,492	-	7,563	15,055
Amortization	-	11,334	-	11,334
Audit & tax return preparation	-	17,025	-	17,025
Conferences/meetings	2,156	5,032	8,440	15,628
Depreciation	-	19,499	-	19,499
Donor recognition	-	-	8,513	8,513
Fundraising software & fees	-	-	197,407	197,407
Insurance	-	11,245	-	11,245
Legal fees	-	3,565	-	3,565
Occupancy	-	246,500	21,921	268,421
Office expenses	4,191	23,835	-	28,026
Other expenses	10,751	-	4,975	15,726
Program services	668,259	-	-	668,259
Salary, wages and benefits	124,013	121,411	121,412	366,836
Scholarships	577,990	-	-	577,990
Sponsorship	200,000	-	-	200,000
Travel	775	379	7,968	9,122
	Total Expenses	\$ 459,945	\$ 378,199	\$ 2,433,771
	\$ 1,595,627	\$ 459,945	\$ 378,199	\$ 2,433,771

Southwestern Oklahoma State University Foundation
Statements of Functional Expenses
Years Ended December 31, 2018 and 2017

	2017			
	Program Services	Management & General	Fundraising	Total
Accounting software and fees	\$ -	\$ 12,114	\$ -	\$ 12,114
Advertising and promotion	5,496	-	14,467	19,963
Amortization (of gifted mineral rights)	-	2,604	-	2,604
Audit & tax return preparation	-	17,025	-	17,025
Conferences/meetings	3,079	5,898	7,379	16,356
Depreciation	-	20,257	-	20,257
Donor recognition	-	-	9,136	9,136
Fundraising software & fees	-	-	123,816	123,816
Insurance	-	10,977	-	10,977
Legal fees	-	13,709	-	13,709
Occupancy	-	246,500	6,672	253,172
Office expenses	9,440	11,979	-	21,419
Other expenses	10,792	-	-	10,792
Program services	496,376	-	-	496,376
Salary, wages and benefits	74,057	134,958	137,886	346,901
Scholarships	477,432	-	-	477,432
Sponsorship	400,000	-	-	400,000
Travel	747	5,002	1,553	7,302
	\$ 1,477,419	\$ 481,023	\$ 300,909	\$ 2,259,351

Southwestern Oklahoma State University Foundation
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

Cash Flows from Operating Activities	<u>2018</u>	<u>2017</u>
Increase in net assets	\$ (1,181,119)	\$ 3,118,988
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	19,499	20,257
Amortization	2,604	2,604
Net Depreciation (appreciation) on investments	1,720,019	(2,742,199)
Appreciation in cash surrender value of life insurance	(5,284)	(5,513)
(Gain) Loss on disposal of gifted property held for sale	(8,096)	4,207
Contributions restricted for endowment	(504,764)	(347,054)
Non-cash contribution	-	(103,403)
Gain on beneficial interest in perpetual trust	119,650	(94,577)
Changes in		
Contributions receivable	(340,740)	26,717
Accounts receivable	-	685
Accounts payable and accrued expenses	51,664	(2,110)
Accounts payable to related party	(134,183)	89,491
Net Cash Used in Operating Activities	<u>(260,750)</u>	<u>(31,907)</u>
 Cash Flows from Investing Activities		
Purchase of investments	(5,465,417)	(6,459,023)
Proceeds from sales and maturities of investments	5,409,461	6,249,260
Purchase of capital assets	(156,360)	-
Gain on assets sold	8,096	15,793
Net Cash Used in Investing Activities	<u>(204,220)</u>	<u>(193,970)</u>
 Cash Flows from Financing Activities		
Contributions restricted for endowment	<u>504,764</u>	<u>347,054</u>
Net Cash Provided by Financing Activities	<u>504,764</u>	<u>347,054</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	39,794	121,177
 Cash and Cash Equivalents at Beginning of Year	<u>401,302</u>	<u>280,125</u>
 Cash and Cash Equivalents at End of Year	<u><u>\$ 441,096</u></u>	<u><u>\$ 401,302</u></u>

Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

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 Classification

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, 2018 and 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Net Asset Classification (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:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions.

Board Designated Net Assets - Net assets without donor restrictions subject to self-imposed limits by action of the governing board. Board designated net assets may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses.

Net assets with Donor Imposed Restrictions - Net assets subject to donor-imposed stipulations that can be met either by actions of the Organization or the passage of time. Contributions with donor-imposed restrictions that are met in the same period as the contribution are accounted for as unrestricted contributions.

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 100% of the annual income to the beneficiaries. The beneficial interest is classified as net assets with donor restrictions and distributions are classified as investment income with donor restrictions from perpetual trust in accordance with the donor's purpose restriction. Changes in the fair market value of the beneficial interest are recorded as 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 is commensurate with the risks involved.

Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

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 judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

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 contributed services meeting the specified criteria totaling \$0 in 2018 and \$13,127 in 2017.

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 \$557,446 and \$521,437 for in-kind contributions and related in-kind expenses for 2018 and 2017, respectively.

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.

Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Note 1: Summary of Significant Accounting Policies (Continued)

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 \$162,335 in 2018 and \$158,627 in 2017.

Investment Revenue

Income and gains on investments are reported as increases in net assets with donor restrictions 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 net assets with donor restrictions 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.

Generally, losses on investments of endowments reduce net assets with donor restriction 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 net assets with donor restrictions.

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, 2018 and 2017

Note 1: Summary of Significant Accounting Policies (Continued)

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 method 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 sold the vacant land in April 2017. At this time, the mineral rights are retained by the Foundation and are being amortized over a 5-year period beginning with 2017. 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.

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.

Administrative Fee

The Foundation assesses 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 restricted funds, this fee is accounted for as a transfer between net assets with restrictions to net assets without restrictions.

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 quotes prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

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, 2018 or 2017.

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, 2013.

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.

Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Management Estimates (Continued)

Estimates that are particularly susceptible to significant change include the valuation of investments, beneficial interest in perpetual trust, and contributions receivable. Investments in securities 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 interests, 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 consideration 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, general and administrative, 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.

Concentration 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.

Subsequent Events

Management has evaluated subsequent events through September 27, 2019, the date the financial statements were available to be issued.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

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, 2018 and 2017. FDIC regulations state that time and savings accounts are insured up to \$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.

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Custody (Category 1)</u>	<u>Credit Risk (Category 2)</u>	<u>Uninsured (Category 3)</u>
December 31, 2018				
<i>Demand Deposits</i>				
Total Deposits	\$ 528,910	\$ 252,761	\$ -	\$ 276,149
December 31, 2017				
<i>Demand Deposits</i>				
Total Deposits	\$ 470,055	\$ 292,620	\$ -	\$ 177,435

Note 3: Contributions Receivable

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

	<u>2018</u>	<u>2017</u>
Due in less than one year	\$ 81,775	\$ 6,350
Due in one to five years	341,000	66,955
	422,775	73,305
Less: Discount to net present value (%)	(8,730)	-
Less: Allowance for uncollectible contributions	-	-
	<u>\$ 414,045</u>	<u>\$ 73,305</u>

Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Note 3: Contributions Receivable (Continued)

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

	<u>2018</u>	<u>2017</u>
Without donor restrictions		
Foundation support	\$ -	\$ -
Total without donor restrictions	-	-
With donor restrictions		
Business Enterprise Center	300,000	-
Everett Dobson Golf Training facility	-	20,955
Scholarships	42,775	51,250
Programs support	80,000	1,100
Total with donor restrictions	<u>422,775</u>	<u>73,305</u>
Total contributions receivable	<u>\$ 422,775</u>	<u>\$ 73,305</u>

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 net assets with donor restrictions 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, 2018 and 2017

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 is 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 managers 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. The property was sold in 2017.

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.

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 is 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.

Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Note 4: Fair Value Measurement (Continued)

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 (if any) 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 a 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).

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

	As of December 31, 2018			Total
	Level 1	Level 2	Level 3	
Assets				
<i>Assets recorded at fair value on a recurring basis</i>				
<i>Investments</i>				
Cash/Money Accounts	\$ 1,055,506	\$ -	\$ -	\$ 1,055,506
Equities	12,754,587			12,754,587
Fixed income	4,442,609	-	-	4,442,609
Annuity contract	-	-	242,946	242,946
Interest in a limited liability company	-	-	617,334	617,334
Alternative investments	-	535,239	-	535,239
Real Estate Investment				
Trusts (REIT) funds		-	758,498	758,498
Total investments	<u>18,252,702</u>	<u>535,239</u>	<u>1,618,778</u>	<u>20,406,719</u>
Beneficial interest in perpetual trust	-	-	1,189,883	1,189,883
<i>Assets recorded at fair value on a non-recurring basis</i>				
Assets held for sale	-	-	-	-
Total assets carried at fair value	<u>\$ 18,252,702</u>	<u>\$ 535,239</u>	<u>\$ 2,808,661</u>	<u>\$ 21,596,602</u>
Liabilities				
Funds held for others	\$ -	\$ -	\$ -	\$ -
Total liabilities carried at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Note 4: Fair Value Measurement (Continued)

Assets	As of December 31, 2017			Total
	Level 1	Level 2	Level 3	
<i>Assets recorded at fair value on a recurring basis</i>				
Investments				
Cash/Money Accounts	\$ 1,513,849	\$ -	\$ -	\$ 1,513,849
Equities	13,794,535			13,794,535
Fixed income	4,696,553			4,696,553
Annuity contract	-	-	274,900	274,900
Interest in a limited liability company	-	-	441,926	441,926
Alternative investments	-	965,911	-	965,911
Real Estate Investment				
Trusts (REIT) funds	-	-	383,108	383,108
Total investments	20,004,937	965,911	1,099,934	22,070,782
Beneficial interest in perpetual trust	-	-	1,309,533	1,309,533
<i>Assets recorded at fair value on a non-recurring basis</i>				
Assets held for sale	-	-	-	-
Total assets carried at fair value	<u>\$ 20,004,937</u>	<u>\$ 965,911</u>	<u>\$ 2,409,467</u>	<u>\$ 23,380,315</u>
Liabilities				
Funds held for others	\$ -	\$ -	\$ -	\$ -
Total liabilities carried at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

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 2018 or 2017.

	Beneficial Interest in Perpetual Trust	Annuity Contract	Interest in Limited Liability Company	Real Estate Investment Trusts (REITs)	Assets Held for Sale	Total
Balance at January 1, 2017	\$ 1,214,956	\$ 238,018	\$ 483,780	\$ 364,189	\$ 20,000	\$ 2,320,943
Contributions	-	-	-	-	-	-
Purchases of investment at cost	-	-	-	-	-	-
Return of capital investment	-	-	(43,591)	-	-	(43,591)
Sales proceeds of investments	-	-	(45,209)	-	(15,793)	(61,002)
Unrealized loss on beneficial interest in trust--included in earnings	94,577	-	-	-	-	94,577
Realized (gain)/loss on investments included in earnings	-	-	45,209	-	(4,207)	41,002
Unrealized (gain)/loss on investments included in earnings	-	36,882	1,737	18,919	-	57,538
Balance at December 31, 2017	1,309,533	274,900	441,926	383,108	-	2,409,467
Contributions	-	-	300,000	300,000	-	600,000
Purchases of investment at cost	-	-	-	-	-	-
Return of capital investment	-	-	(98,630)	31,678	-	(66,952)
Sales proceeds of investments	-	-	(52,544)	-	-	(52,544)
Unrealized loss on beneficial interest in trust--included in earnings	(119,650)	-	-	-	-	(119,650)
Realized (gain)/loss on investments included in earnings	-	-	52,544	-	-	52,544
Unrealized (gain)/loss on investments included in earnings	-	(31,954)	(25,962)	43,712	-	(14,204)
Balance at December 31, 2018	\$ 1,189,883	\$ 242,946	\$ 617,334	\$ 758,498	\$ -	\$ 2,808,661

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, 2018 and 2017

Note 4: Fair Value Measurement (Continued)

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

	Fair Value December 31		Redemption Frequency	Redemption Notice Period
	2018	2017		
Interest in private limited liability company (a)	\$ 617,334	\$ 441,926	Illiquid until sale of assets	N/A
Interest in private Real Estate Investment Trust (REIT) (b)	758,498	383,108	Illiquid; Restricted security with time & written consent constraints	N/A
	<u>\$ 1,375,832</u>	<u>\$ 825,034</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 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, 2018 and 2017

Note 5: Land, Building, and Equipment

Property and equipment are summarized as follows at December 31:

	2018	2017
Land	\$ 120,000	\$ 120,000
Buildings	885,909	729,549
Office Equipment	4,185	4,185
Leasehold improvements	32,720	32,720
Software	95,136	95,136
	<u>1,137,950</u>	<u>981,590</u>
Accumulated depreciation	(400,305)	(380,806)
Net property and equipment	<u>\$ 737,645</u>	<u>\$ 600,784</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. Payable to related party of \$0 and \$134,183 at December 31, 2018 and 2017, 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, 2019. The lease provides for annual rental payments of \$70,000 payable in monthly installments of \$5,833. The Foundation is to provide 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, 2018, the University is committed to pay rentals, which total \$35,000 through June 30, 2019.

Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Note 7: Net Assets

Net assets without donor restrictions consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Board-designated		
Endowed chairs	\$ 718,285	\$ 764,948
Foundation operations	12,854	11,785
Undesignated	26,425	345,273
	<u>\$ 757,564</u>	<u>\$ 1,122,006</u>

Net assets with donor restrictions consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Scholarship	\$ 2,519,902	\$ 3,886,139
Foundation operations	52,505	183,305
General University support	1,010,582	710,141
Endowed chairs	624,592	842,840
Athletic support	210,375	100,136
	<u>\$ 4,417,956</u>	<u>\$ 5,722,561</u>

Net Assets not subject to appropriation or expenditures consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Scholarship	\$ 14,142,104	\$ 13,860,901
Foundation operations	418,028	414,172
General University support	490,823	273,365
Endowed chairs	2,805,812	2,825,928
Athletic support	235,297	229,770
	<u>\$ 18,092,064</u>	<u>\$ 17,604,136</u>

Net assets released from restrictions were as follows at December 31:

	<u>2018</u>	<u>2017</u>
Scholarship	\$ 475,902	\$ 368,038
Foundation operations	20,968	11,337
General University support	99,496	157,708
Endowed chairs	-	92,913
Athletic support	97,360	74,162
	<u>\$ 693,726</u>	<u>\$ 704,158</u>

Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

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 net assets with donor restrictions not subject to appropriation (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 net assets with donor restrictions not subject to appropriation or expenditures is classified as net assets with donor restrictions 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; and
- 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 Trustees, 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, 2018 and 2017

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 2018, the Foundation has a policy of appropriating for distribution each year, eighty-five percent of the net 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 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 restricted until appropriated for expenditure. All earnings on board-designated endowment funds are classified as unrestricted.

For 2018, 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 preceding year ended December 31.

Endowment net asset composition as of December 31, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ 43,411	\$ 19,878,274	\$ 19,921,685
Board-designated endowment funds	731,139	-	731,139
Total endowment funds	<u>\$ 774,550</u>	<u>\$ 19,878,274</u>	<u>\$ 20,652,824</u>

Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Note 8: Endowment Disclosures (Continued)

Changes in endowment net assets during 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 815,087	\$ 20,826,509	\$ 21,641,596
Investment return:			
Interest and dividends	13,777	368,666	382,443
Net realized and unrealized gains/(losses)	(56,316)	(1,510,256)	(1,566,572)
Total investment returns	(42,539)	(1,141,590)	(1,184,129)
Contributions	7,000	775,815	782,815
Provision for losses on uncollectible pledge	-	(8,730)	(8,730)
Program Service Revenues	1,088	50	1,138
Other income	6,883	1,755	8,638
Reclassification - donor directed	(5,084)	(79,649)	(84,733)
Appropriation of endowment assets for expenditure	(7,885)	(495,886)	(503,771)
Endowment net assets, end of year	<u>\$ 774,550</u>	<u>\$ 19,878,274</u>	<u>\$ 20,652,824</u>

Endowment net asset composition as of December 31, 2017 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ 38,353	\$ 20,826,508	\$ 20,864,861
Board-designated endowment funds	776,734	-	776,734
Total endowment funds	<u>\$ 815,087</u>	<u>\$ 20,826,508</u>	<u>\$ 21,641,595</u>

Changes in endowment net assets during 2017 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 461,182	\$ 18,232,725	\$ 18,693,907
Investment return:			
Interest and dividends	12,449	299,876	312,325
Net realized and unrealized gains/(losses)	91,791	2,403,646	2,495,437
Total investment returns	104,240	2,703,522	2,807,762
Contributions	16,739	519,225	535,964
Provision for losses on uncollectible pledge	-	-	-
Program Service Revenues	49,685	-	49,685
Other income	8,605	2,223	10,828
Reclassification - donor directed	247,962	(167,957)	80,005
Appropriation of endowment assets for expenditure	(73,326)	(463,230)	(536,556)
Endowment net assets, end of year	<u>\$ 815,087</u>	<u>\$ 20,826,508</u>	<u>\$ 21,641,595</u>

Southwestern Oklahoma State University Foundation, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

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 US GAAP, the deficiencies of this nature that are reported in unrestricted net assets were \$0 and \$0 at December 31, 2018 and 2017, respectively. These deficiencies result 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.