COMMUNITIES FOUNDATION OF OKLAHOMA

FINANCIAL STATEMENTS

JUNE 30, 2016 and 2015

WITH

INDEPENDENT AUDITOR'S REPORT

HoganTaylor LLP
CPAs + ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Communities Foundation of Oklahoma, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Communities Foundation of Oklahoma, Inc. (the Foundation), which comprise the statement of financial position as of June 30, 2016, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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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 Foundation as of June 30, 2016, and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Foundation, as of and for the year ended June 30, 2015, were audited by other auditors, whose report dated September 23, 2015, expressed an unmodified opinion on those statements.

HoganTaylor LLP

October 18, 2016

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 3,409,056	$ 3,523,006
Contributions receivable, net	1,986,833	2,132,564
Investments	86,300,684	86,062,238
Real estate and mineral interests	565,309	673,431
Total assets	$ 92,261,882	$ 92,391,239
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 53,082	$ 51,516
Grants payable, net	3,959,716	4,048,784
Agency transfers	28,738,551	28,971,520
Total liabilities	32,751,349	33,071,820
Net assets:		
Unrestricted	59,510,533	59,319,419
Total liabilities and net assets	$ 92,261,882	$ 92,391,239

See notes to financial statements.

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

STATEMENTS OF ACTIVITIES

Years ended June 30, 2016 and 2015

	2016	2015
Revenues, Gains and Other Support		
Contributions	$ 8,028,623	$ 7,637,908
Investment income	1,259,797	1,197,599
Net realized investment gains	3,678,082	3,869,431
Net unrealized investment losses	(4,153,603)	(3,732,671)
Administrative fee income	887,819	925,240
Total revenues, gains and other support	9,700,718	9,897,507
Expenses		
Grants and program services	8,801,993	10,518,490
Management and general	616,445	655,761
Fundraising	91,166	68,833
Total expenses	9,509,604	11,243,084
Increase (decrease) in net assets	191,114	(1,345,577)
Net assets, beginning of year	59,319,419	60,664,996
Net assets, end of year	$ 59,510,533	$ 59,319,419

See notes to financial statements.

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

STATEMENTS OF CASH FLOWS

Years ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	$ 191,114	$ (1,345,577)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized investment gains	(3,678,082)	(3,869,431)
Net unrealized investment losses	4,153,603	3,732,671
Noncash contributions of stock and other investments	(375,524)	(677,323)
Proceeds from sale of noncash contributions of stock and other investments	375,524	677,323
Change in operating assets and liabilities:		
Contributions receivable	145,731	529,233
Accounts payable	1,566	(11,461)
Grants payable	(89,068)	(346,769)
Agency transfers	(232,969)	40,201
Net cash provided by (used in) operating activities	491,895	(1,271,133)
Cash Flows from Investing Activities		
Proceeds from sale of investment securities	3,814,540	4,462,039
Purchases of investment securities	(4,420,385)	(5,145,964)
Net cash used in investing activities	(605,845)	(683,925)
Net decrease in cash and cash equivalents	(113,950)	(1,955,058)
Cash and cash equivalents, beginning of year	3,523,006	5,478,064
Cash and cash equivalents, end of year	$ 3,409,056	$ 3,523,006

See notes to financial statements.

Note 1 – Nature of Operations

Communities Foundation of Oklahoma, Inc. (the Foundation) was incorporated November 26, 1991, under the laws of the state of Oklahoma as a not-for-profit organization to serve the charitable needs of communities in Oklahoma. The Foundation provides a convenient, efficient and effective vehicle for individuals and organizations across the state to donate gifts that permanently impact their communities and a way for charities to build endowments to ensure their ability to continue meeting the needs of their communities long into the future.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting

The financial statements of not-for-profit organizations report information regarding the Foundation's financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation receives contributions from donors with recommendations regarding distribution of the assets and the earnings therefrom. The Foundation attempts to meet the desires expressed by the donors at the time of the contribution; however, the Foundation reserves the right to modify any restrictions or conditions on the distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgment of the Foundation's Board of Directors (the Board), such restrictions or conditions become unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community. Accordingly, the financial statements classify all net assets as unrestricted.

The state of Oklahoma adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) on November 1, 2007. The Board has determined that the Foundation's net assets do not meet the definition of an endowment under UPMIFA. The Foundation is governed subject to the terms of its by-laws and articles of incorporation and all contributions are subject to the terms of these governing documents. Under the terms of the Foundation's governing documents, the Board has the ability to distribute as much of the corpus of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine.

As a result of the ability to distribute corpus, all contributions to the Foundation are classified as unrestricted net assets for financial statement purposes. While the assets of the Foundation do not meet the definition of an endowment as defined under UPMIFA, some of the assets function as endowments and are managed by the Foundation similar to endowment funds and are considered board-designated endowment funds (see Note 6).

The Foundation accounts for assets that are transferred by a not-for-profit organization (NPO) for the benefit of that NPO, or one of its affiliated organizations as a liability to the specified beneficiary concurrent with recognition of the assets received in the transfer. All assets of this type, and the activity associated with those assets, are reported as agency transfers in the statements of financial position.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash management accounts and short-term, highly liquid investments with a maturity of three months or less when purchased, excluding cash equivalent funds held in the Foundation's investment portfolio.

Contributions

Contributions, including unconditional promises to give, are recorded as unrestricted revenue when received. It is the expressed intention of the Foundation to honor the designations of donors; however, the Foundation reserves the right to exercise final control over all funds.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. An allowance for uncollectible receivables is provided based on management's judgment including factors such as prior collections, type of contribution, and nature of the activity. No allowance has been recorded as of June 30, 2016 or 2015.

Donated assets

Donated marketable securities and other noncash assets are recorded as contributions at their estimated fair values at the time of donation.

Donated services

No revenues have been recognized in the statements of activities for donated services. The Foundation pays for most services requiring specific expertise; however, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with special projects, committee assignments and service on the Board.

Concentration of credit risk

The Foundation maintains cash in bank deposit accounts which, at times, may exceed federally insured limits of $250,000. Checking account balances in excess of federally insured limits are regularly swept into an account that is secured by a mutual fund that invests primarily in government securities. The Foundation has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash or cash equivalents.

Contributions receivable reflected in the statements of financial position are primarily due from two donors representing 98% of gross contributions receivable at June 30, 2016 and 2015, respectively. In 2015, contributions from one donor represented 19% of total contributions.

Investments

The Foundation carries investments in marketable securities at their fair values in the statements of financial position. Fair values are based on quoted market prices, if available. Nonmarketable investments for which observable market prices in active markets do not exist are reported at fair value based on net asset values provided by the investment managers. Substantially all investments are held under a master custodial arrangement by a bank trust department.

Real estate and mineral interests

Real estate and mineral interests are recorded at the lower of cost or fair value. Permanent decreases in fair value below cost are recorded in the year that such decreases become known. Contributions of real estate and mineral interests are recorded at fair value at the time of donation.

Grants and program services

Grants and program services represent amounts awarded to various recipients in accordance with the Foundation's mission. Grants payable consist of unconditional amounts awarded, but not paid, to recipients.

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 grants and 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.

Income tax status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation has no activities which are subject to tax on unrelated business income, nor has it been classified by the Internal Revenue Service as a private foundation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosed contingent assets and liabilities 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 and pledges receivable. Investments in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these assets, it is reasonably possible that changes in the values of investments 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. Management's estimate of pledges receivable is based on consideration of all relevant available information and an analysis of the collectibility of individual contributions at the financial statement date.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's financial statement presentation. These reclassifications did not affect the previously reported net assets or change in net assets.

New accounting pronouncements

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which provides more relevant information about available resources (and the changes in those resources) to donors, grantors, creditors and other users. The most significant aspects of the ASU are as follows: (1) the ASU replaces the current presentation of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two classes of net assets – net assets with donor restrictions and net assets without donor restrictions, (2) the ASU expands the disclosures about the nature and amount of any donor restrictions, board designations of net assets without donor restrictions as well as any underwater endowment funds, (3) the ASU requires expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses, and (4) the ASU requires specific quantitative and qualitative disclosures to improve the ability of financial statement users to assess the entity's available financial resources and the methods by which it manages liquidity and liquidity risk. ASU 2016-14 is to be applied retrospectively, and is effective for years beginning after December 15, 2017, with early adoption permitted. The Foundation will be evaluating the impact this standard will have on its financial statements and related disclosures.

<u>Subsequent events</u>

The Foundation has evaluated subsequent events through October 18, 2016, which is the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.

Note 3 – Contributions Receivable

Included in contributions receivable are unconditional promises to give, expected to be received as follows, at June 30:

	2016	2015
Less than one year	$ 448,261	$ 538,830
One year to five years, net of discount of $21,628 and $34,191, respectively	1,538,572	1,593,734
	$ 1,986,833	$ 2,132,564

Unconditional promises to give, which are due in more than one year, are discounted using an estimated risk free rate at June 30, 2016 and 2015.

Note 4 – Investments

Investments consist of the following at June 30:

	2016	2015
Cash equivalent funds	$ 534,093	$ 475,809
Mutual funds	85,710,154	85,452,454
Government agency bonds	2,150	41,073
Mortgage-backed securities	54,287	92,902
	$ 86,300,684	$ 86,062,238

Note 5 – Grants Payable

Grants payable are expected to be paid as follows at June 30:

	2016	2015
Less than one year	$ 1,416,690	$ 1,572,721
One year to five years, net of discount of $30,025 and $34,191, respectively	2,543,026	2,476,063
	$ 3,959,716	$ 4,048,784

Grants payable due in more than one year are discounted using an estimated risk free rate at June 30, 2016 and 2015.

Note 6 – Agency Transfers

Accounting Standards Codification Subtopic 958-605-25, *Not-for-Profit Entities – Revenue Recognition Contributions*, establishes standards for transactions in which the Foundation accepts a transfer from a donor and agrees to transfer those assets, the return on investment of those assets or both to another entity that is specified by the donor. This guidance requires that if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself or one of its affiliated organizations as the beneficiary of that fund, the community foundation must account for the transfer of such assets and the activity associated with those assets as a liability.

The Foundation maintains variance power, as described in its governing documents of the Foundation, and legal ownership over these funds and, as such, continues to report the funds as assets of the Foundation. Variance power assures donors that if the charitable purpose of their contribution becomes impractical or impossible, the distributions will be directed to similar purposes in the community. All financial activity for the years ended June 30, 2016 and 2015, related to these assets has been reclassified from the statements of activities to a liability on the statements of financial position.

Note 7 – Related Party Transactions

The Foundation had investments of $83,843,977 and $83,477,501 at June 30, 2016 and 2015, respectively, that were managed by a local bank. The Foundation also had cash and cash equivalents of $3,409,056 and $3,523,000 at June 30, 2016 and 2015, respectively, that were held in accounts with the same bank. Members of the Foundations' Board of Directors have an ownership interest and help manage the operations of this bank. The Foundation paid investment management and other fees to this bank of approximately $357,000 and $374,000 for the years ended June 30, 2016 and 2015, respectively.

Note 8 – Endowment Disclosures

The Foundation's net asset composition for board-designated endowments by type of fund, is as follows at June 30:

	Unrestricted	
	2016	2015
Board-designated endowment funds:		
Community funds	$ 3,693,428	$ 4,011,970
Designated	11,303,240	11,269,767
Field of interest	1,799,037	1,892,183
Scholarship	4,930,569	4,706,007
Undesignated	1,172,243	1,160,288
Total endowment funds	$ 22,898,517	$ 23,040,215

Changes in endowment net assets are as follows:

	2016	2015
Endowment net assets, beginning of year	$ 23,040,215	$ 22,802,131
Investment return:		
Interest and dividends	434,984	382,507
Royalty income	32,853	49,167
Net investment gains (losses)	(432,651)	34,418
	35,186	466,092
Contributions	1,058,937	1,765,592
Appropriations for expenditures	(971,393)	(1,721,239)
Administrative fees	(264,428)	(272,361)
Endowment net assets, end of year	$ 22,898,517	$ 23,040,215

Return objectives and risk parameters, strategies employed for achieving objectives, and spending policy and how the investment objectives relate to spending policy

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. The Foundation's spending and investment polices work together to achieve these objectives. Generally, the Foundation follows a spending policy of 6% of total assets calculated over eight quarters, which based on the expected rate of return is designed to ensure preservation of capital. The investment policy establishes a long-term return objective through diversification of asset classes.

To achieve its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Note 9 – Fair Value Measurements

Accounting Standards Codification Topic 820, *Fair Value Measurements,* 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 fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. During the years ended June 30, 2016 and 2015, there were no transfers of financial instruments into or out of Level 3.

Financial assets and liabilities carried at fair value on a recurring basis include investments and the liability for agency transfers. The Foundation has no assets or liabilities carried at fair value on a nonrecurring basis at June 30, 2016 or 2015.

Following is a description of the valuation methodologies used for assets measured at fair value:

Cash equivalent funds – Stated at fair value based on quoted market prices and accordingly are classified as Level 1 in the fair value hierarchy.

Mutual funds – Valued at quoted market prices

Government agency bonds and mortgage-backed securities – Valued using observable Level 2 inputs under the market approach including quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there is not sufficient activity, and/or where price quotations vary substantially either over time or among market makers, or in which little information is released publicly. Mid-market pricing or other pricing conventions may be used for fair value measurements within a bid-ask spread. Observable Level 2 inputs under the income approach include commonly quoted interest rates, yield curves, volatilities, prepayment spreads, loss severities, credit risks and/or default rates.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets that are measured at fair value on a recurring basis at June 30:

	2016			
	Level 1	Level 2	Level 3	Total
Cash equivalent funds	$ 534,093	$ -	$ -	$ 534,093
Mutual funds	85,710,154	-	-	85,710,154
Government agency bonds	-	2,150	-	2,150
Mortgage-backed securities	-	54,287	-	54,287
Total investments at fair value	$ 86,244,247	$ 56,437	$ -	$ 86,300,684

	2015			
	Level 1	Level 2	Level 3	Total
Cash equivalent funds	$ 475,809	$ -	$ -	$ 475,809
Mutual funds	85,452,454	-	-	85,452,454
Government agency bonds	-	41,073	-	41,073
Mortgage-backed securities	-	92,902	-	92,902
Total investments at fair value	$ 85,928,263	$ 133,975	$ -	$ 86,062,238

Agency transfers include funds held by the Foundation on behalf of others (see Note 6). The Foundation determines fair value of these liabilities on the basis of the fair value of the underlying investments.

Note 10 – Commitments

The Foundation initially entered into an agreement for management services with Foundation Management, Inc. (FMI) on December 15, 2001. The agreement has been renewed annually, with periodic modifications to some terms of the agreement, on a rolling three year basis. There are provisions for earlier termination by either party. Currently, 100% of management fee income from Oklahoma Education Technology Trust (the Trust) and the City of Muskogee Foundation, Inc. (Muskogee Foundation) and 55% of administrative income earned by the Foundation are due to FMI. The fees expended under this agreement were $960,937 and $984,363 for the years ended June 30, 2016 and 2015, respectively.

On December 18, 2001, the Foundation entered into an agreement with the Trust to coordinate the ongoing activities of the Trust and manage the process of soliciting and evaluating grant requests for the Trust. The agreement has been renewed annually on a rolling three year basis, with provisions for earlier termination by either party. The Foundation is paid an annual fee by the Trust for services provided. The fee is calculated and charged monthly and is based on the fair value of Trust assets. The monthly management fee is equal to the product of 0.60% of the aggregate market value of the assets. For the purpose of calculating the fee for services, a minimum fair value of Trust assets had been imputed, which resulted in a minimum fee of $180,000. Fees for services received under this agreement were $205,763 and $218,136 for the years ended June 30, 2016 and 2015, respectively.

On January 14, 2008, the Foundation entered into an agreement with Muskogee Foundation to hold, invest, manage and administer Muskogee Foundation. The agreement is automatically renewed annually, with provisions for earlier termination by either party. The Foundation is paid an annual fee by the Muskogee Foundation for services provided. The fee is calculated and charged monthly, and is based on the fair value of Muskogee Foundation assets. The monthly management fee is equal to the product of 0.30% of aggregate market value of the assets. Fees for services received under this agreement were $402,452 and $416,601 for the years ended June 30, 2016 and 2015, respectively.