

**ALLIED ARTS FOUNDATION, INC.**

**FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED  
JUNE 30, 2017 AND 2016**

**TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

**ALLIED ARTS FOUNDATION, INC.**

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**June 30, 2017 and 2016**

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## **INDEPENDENT AUDITOR'S REPORT**

The Board of Directors  
Allied Arts Foundation, Inc.  
Oklahoma City, Oklahoma

We have audited the accompanying financial statements of Allied Arts Foundation, Inc. (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allied Arts Foundation, Inc. as of June 30, 2017, and the change in its net assets and its cash flows for year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

The financial statements of the Organization as of June 30, 2016, were audited by other auditors whose report dated March 3, 2017, expressed an unmodified opinion on those statements.

*HSPG & Associates, P.C.*

February 9, 2018

HSPG & ASSOCIATES, PC

**ALLIED ARTS FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,490,056	\$ 2,299,773
Certificates of deposit	765,366	761,507
Pledges receivable, net of allowance for doubtful accounts of \$52,464 and \$36,559, respectively	469,123	618,739
Investments, designated for endowment	2,148,220	1,925,853
Property and equipment, net of \$316,782 and \$307,996 accumulated depreciation, respectively	17,344	26,130
Other assets	38,118	65,579
Beneficial interest in assets held by others	694,985	631,376
<b>TOTAL ASSETS</b>	<u>\$ 6,623,212</u>	<u>\$ 6,328,957</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 40,414	\$ 46,552
Accrued payroll and related withholding payable	60,707	58,926
Allocations payable (within one year)	2,405,000	2,312,243
<b>TOTAL LIABILITIES</b>	<u>2,506,121</u>	<u>2,417,721</u>
<b>NET ASSETS</b>		
Unrestricted:		
Operations	1,273,886	698,709
Board designated:		
Centennial Fund	2,148,220	1,925,853
Beneficial interest in assets held by others	694,985	631,376
Total unrestricted	<u>4,117,091</u>	<u>3,255,938</u>
Temporarily restricted	<u>-</u>	<u>655,298</u>
<b>TOTAL NET ASSETS</b>	<u>4,117,091</u>	<u>3,911,236</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 6,623,212</u>	<u>\$ 6,328,957</u>

The accompanying notes are an integral part of these financial statements.

**ALLIED ARTS FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017 (with comparative totals for June 30, 2016)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2017</u>	<u>Comparative Total 2016</u>
<b>OPERATING SUPPORT AND REVENUES</b>				
Annual campaign contributions	\$ 3,114,966	\$ -	\$ 3,114,966	\$ 2,942,694
In-kind contributions	280,669	-	280,669	90,495
Other grants and contributions	60,255	-	60,255	128,950
Special event revenues	479,163	-	479,163	196,207
Other income	6,947	-	6,947	17,985
Restrictions released	655,298	(655,298)	-	-
Total operating support and revenues	<u>4,597,298</u>	<u>(655,298)</u>	<u>3,942,000</u>	<u>3,376,331</u>
<b>OPERATING EXPENSES</b>				
Program services:				
Grants and allocations	2,423,811	-	2,423,811	2,302,454
Grant support and other services	372,789	-	372,789	391,709
Total program services	<u>2,796,600</u>	<u>-</u>	<u>2,796,600</u>	<u>2,694,163</u>
Supporting services:				
Management and general	238,173	-	238,173	220,802
Costs of direct benefits to donors	191,362	-	191,362	76,916
Fundraising:				
In-kind	280,669	-	280,669	51,438
Other	521,142	-	521,142	548,820
Total supporting services	<u>1,231,346</u>	<u>-</u>	<u>1,231,346</u>	<u>897,976</u>
Total operating expenses	<u>4,027,946</u>	<u>-</u>	<u>4,027,946</u>	<u>3,592,139</u>
Changes in net assets from operations	<u>569,352</u>	<u>(655,298)</u>	<u>(85,946)</u>	<u>(215,808)</u>
<b>NONOPERATING CHANGES</b>				
Investment activity:				
Interest earned on investments	45,612	-	45,612	43,660
Investment management fees	(12,781)	-	(12,781)	(12,240)
Net realized and unrealized investment gains (losses)	193,505	-	193,505	(25,058)
Change in beneficial interest in assets held by others	65,465	-	65,465	4,751
Total nonoperating changes	<u>291,801</u>	<u>-</u>	<u>291,801</u>	<u>11,113</u>
<b>CHANGE IN NET ASSETS</b>	861,153	(655,298)	205,855	(204,695)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>3,255,938</u>	<u>655,298</u>	<u>3,911,236</u>	<u>4,115,931</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 4,117,091</u>	<u>\$ -</u>	<u>\$ 4,117,091</u>	<u>\$ 3,911,236</u>

The accompanying notes are an integral part of these financial statements.

**ALLIED ARTS FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>OPERATING SUPPORT AND REVENUES</b>			
Annual campaign contributions	\$ 1,123,042	\$ 1,819,652	\$ 2,942,694
In-kind contributions	90,495	-	90,495
Other grants and contributions	107,950	21,000	128,950
Special event revenues	159,557	36,650	196,207
Other income	17,985	-	17,985
Restrictions released	1,772,289	(1,772,289)	-
Total operating support and revenues	<u>3,271,318</u>	<u>105,013</u>	<u>3,376,331</u>
<b>OPERATING EXPENSES</b>			
Program services:			
Grants and allocations	2,302,454	-	2,302,454
Grant support and other services	391,709	-	391,709
Total program services	<u>2,694,163</u>	<u>-</u>	<u>2,694,163</u>
Supporting services:			
Management and general	220,802	-	220,802
Costs of direct benefits to donors	76,916	-	76,916
Fundraising:			
In-kind	51,438	-	51,438
Other	548,820	-	548,820
Total supporting services	<u>897,976</u>	<u>-</u>	<u>897,976</u>
Total operating expenses	<u>3,592,139</u>	<u>-</u>	<u>3,592,139</u>
Changes in net assets from operations	<u>(320,821)</u>	<u>105,013</u>	<u>(215,808)</u>
<b>NONOPERATING CHANGES</b>			
Investment activity:			
Interest earned on investments	43,660	-	43,660
Investment management fees	(12,240)	-	(12,240)
Net realized and unrealized investment gains (losses)	(25,058)	-	(25,058)
Change in beneficial interest in assets held by others	4,751	-	4,751
Total nonoperating changes	<u>11,113</u>	<u>-</u>	<u>11,113</u>
<b>CHANGE IN NET ASSETS</b>	(309,708)	105,013	(204,695)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>3,565,646</u>	<u>550,285</u>	<u>4,115,931</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 3,255,938</u>	<u>\$ 655,298</u>	<u>\$ 3,911,236</u>

The accompanying notes are an integral part of these financial statements.

**ALLIED ARTS FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2017 (with comparative totals for June 30, 2016)**

	Program Services		Supporting Services				Total	Total 2016
	Grants & Allocations	Grant Support & Other Services	Management and General	Costs of Direct Benefits to Donors	Fundraising: In-Kind	Fundraising: Other		
Member agency allocations	\$ 2,200,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,200,000	\$ 2,124,856
Education outreach	190,612	-	-	-	-	-	190,612	147,598
Small grant program	33,199	-	-	-	-	-	33,199	30,000
Personnel	-	246,173	170,954	-	-	266,687	683,814	674,845
Occupancy	-	28,829	20,020	-	-	31,232	80,081	85,099
Events	-	-	-	191,362	-	64,775	256,137	131,378
In-kind expenses	-	-	-	-	280,669	-	280,669	51,438
Office expense:								
Printing	-	2,547	272	-	-	9,438	12,257	33,967
Postage	-	3,746	1,001	-	-	4,814	9,561	8,995
Telephone	-	2,689	1,867	-	-	2,913	7,469	6,928
Dues and subscriptions	-	2,921	2,029	-	-	3,165	8,115	7,959
Administrative fees & charges	-	-	14,772	-	-	22,654	37,426	15,351
Supplies	-	2,968	1,975	-	-	118	5,061	4,556
Other expenses	-	10,728	7,450	-	-	11,622	29,800	19,860
Donor relations	-	-	-	-	-	39,089	39,089	15,710
Bad debt expense	-	37,694	4,024	-	-	6,171	47,889	72,733
Depreciation and amortization	-	3,162	2,197	-	-	3,427	8,786	25,934
Professional services	-	7,362	5,112	-	-	7,975	20,449	20,081
Marketing	-	14,526	-	-	-	36,833	51,359	77,949
Technology	-	4,513	3,134	-	-	4,889	12,536	14,894
Meetings	-	84	-	-	-	90	174	4,474
Travel	-	2,379	1,652	-	-	2,577	6,608	10,398
Insurance	-	2,468	1,714	-	-	2,673	6,855	7,136
<b>Total</b>	<b>\$ 2,423,811</b>	<b>\$ 372,789</b>	<b>\$ 238,173</b>	<b>\$ 191,362</b>	<b>\$ 280,669</b>	<b>\$ 521,142</b>	<b>\$ 4,027,946</b>	<b>\$ 3,592,139</b>

The accompanying notes are an integral part of these financial statements.

**ALLIED ARTS FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Program Services		Supporting Services				Total
	Grants & Allocations	Grant Support & Other Services	Management and General	Costs of Direct Benefits to Donors	Fundraising: In-Kind	Fundraising: Other	
Member agency allocations	\$ 2,124,856	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,124,856
Education outreach	147,598	-	-	-	-	-	147,598
Small grant program	30,000	-	-	-	-	-	30,000
Personnel	-	225,045	155,624	-	-	294,176	674,845
Occupancy	-	30,921	21,383	-	-	32,795	85,099
Events	-	-	-	76,916	-	54,462	131,378
In-kind expenses	-	-	-	-	51,438	-	51,438
Office expense:							
Printing	-	7,059	754	-	-	26,154	33,967
Postage	-	3,524	942	-	-	4,529	8,995
Telephone	-	2,517	1,741	-	-	2,670	6,928
Dues and subscriptions	-	2,892	2,000	-	-	3,067	7,959
Administrative fees & charges	-	-	6,059	-	-	9,292	15,351
Supplies	-	2,672	1,778	-	-	106	4,556
Other expenses	-	7,109	4,699	-	-	8,052	19,860
Donor relations	-	-	-	-	-	15,710	15,710
Bad debt expense	-	57,250	6,111	-	-	9,372	72,733
Depreciation and amortization	-	9,423	6,517	-	-	9,994	25,934
Professional services	-	7,296	5,046	-	-	7,739	20,081
Marketing	-	22,047	-	-	-	55,902	77,949
Technology	-	5,412	3,742	-	-	5,740	14,894
Meetings	-	2,171	-	-	-	2,303	4,474
Travel	-	3,778	2,613	-	-	4,007	10,398
Insurance	-	2,593	1,793	-	-	2,750	7,136
Total	<u>\$ 2,302,454</u>	<u>\$ 391,709</u>	<u>\$ 220,802</u>	<u>\$ 76,916</u>	<u>\$ 51,438</u>	<u>\$ 548,820</u>	<u>\$ 3,592,139</u>

The accompanying notes are an integral part of these financial statements.



**ALLIED ARTS FOUNDATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 205,855	\$ (204,695)
Adjustments to reconcile change in net assets to net cash flows provided by (used in) operations:		
Depreciation and amortization	8,786	25,934
Net realized and unrealized investment (gains) losses	(193,505)	25,058
Change in beneficial interest in assets held by others	(65,465)	(4,751)
Non-cash investment earnings	(32,607)	(31,420)
Changes in operating assets and liabilities:		
Pledges receivable	149,616	(115,084)
Other assets	27,461	(4,944)
Accounts payable	(6,138)	(1,341)
Accrued payroll and related withholding payable	1,781	(14,781)
Allocations payable	92,757	(253,677)
Net cash provided by (used in) operating activities	<u>188,541</u>	<u>(579,701)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	-	(1,418)
Cash additions to beneficial interest	(29,235)	(16,175)
Distributions received from beneficial interest in assets held by others	31,091	29,782
Proceeds from maturity of certificate of deposit	-	256,489
Cash payments for the purchase of investments	(5,122)	-
Cash proceeds from the sale of investments	5,008	62,894
Net cash provided by investing activities	<u>1,742</u>	<u>331,572</u>
<b>CHANGE IN CASH</b>	190,283	(248,129)
<b>CASH AND CASH EQUIVALENTS:</b>		
<b>BEGINNING OF YEAR</b>	<u>2,299,773</u>	<u>2,547,902</u>
<b>END OF YEAR</b>	<u>\$ 2,490,056</u>	<u>\$ 2,299,773</u>

The accompanying notes are an integral part of these financial statements.

**ALLIED ART FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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**1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Organization*** – Allied Arts Foundation, Inc. (the “Organization”) is a not-for-profit organization formed to provide financial support for certain Oklahoma City cultural agencies. It also provides additional services in support of the cultural community in the Oklahoma City area including education outreach, community grants, financial oversight of member agencies, cultural community impact activities, input on related public policies, volunteer coordination and support, planning for cultural community needs, information and referral services, and participation with national affiliates. The Organization’s support comes primarily through donor contributions.

***Basis of Accounting*** – The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other assets and liabilities.

***Basis of Presentation*** – Net assets, revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. The Organization reports information regarding its financial position and activities according to three classes of net assets as follows:

***Unrestricted net assets*** – Net assets that are not subject to donor-imposed restrictions.

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

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

***Contribution revenue recognition*** – Contributions, including unconditional promises to give, are recognized as revenues in the period received by the Organization. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift.

Contributions are reported as increases in the appropriate net asset category. Expenses are reported as decreases in unrestricted net assets. 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, 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. Contributions which are received and whose restrictions are met in the same period are recognized as unrestricted contributions.

***Cash and Cash Equivalents*** – For purposes of reporting cash flows, the Organization considers all cash on hand, demand deposit bank accounts and temporary investments with an original maturity of three months or less, when purchased, to be cash equivalents except those cash equivalents included in the Organization’s investment accounts.

***Certificates of Deposit*** – Certificates of deposit are recorded at cost plus accrued interest.

***Pledges Receivable*** – Pledges receivable consist of unconditional promises to give, net of estimated discounts. No discounts have been recorded as of June 30, 2017 or 2016, as all pledges are expected to be received within one year. The Organization determines the allowance for doubtful accounts based on historical experience, an assessment of economic conditions, and a review of subsequent collections.

***Investments*** – Investments are recorded at fair value as determined by the investment manager. Realized investment gains and losses are computed on the average cost basis. These gains and losses and other investment income (i.e. interest and dividends) are reflected in the statements of activities.

***Beneficial Interest in Assets Held by Others*** – The Organization accounts for assets that are contributed by the Organization to the Oklahoma City Community Foundation (the “Community Foundation”) as an asset of the Organization, if it has been specified as the beneficiary of those assets. All contributions of this type, and the activity associated with the asset held at the Community Foundation, are reported at fair value as beneficial interest in assets held by others in the statements of financial position, with the related changes in fair value reported in the statements of activities. Distributions to the Organization from these funds reduce the Organization’s beneficial interest in assets held by others.

***Concentration of Credit Risk*** – The Organization maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. As of June 30, 2017 and 2016, the Organization’s balances with financial institutions subject to FDIC coverage exceeded such coverage by \$2,148,093 and \$1,926,033, respectively. The Organization has not experienced any losses in such accounts, and does not believe that it is exposed to any significant credit risk on cash.

The Organization’s pledges receivable at June 30, 2017, include approximately \$199,000 from three donors representing 43% of total pledges receivable. The Organization’s pledges receivable at June 30, 2016, include approximately \$272,000 from six donors representing 44% of total pledges receivable.

***In-kind Support*** – The Organization recognizes various types of in-kind support including professional services, advertising, materials, and property and equipment to support the Organizations fundraising efforts. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses or property and equipment. For the years ended June 30, 2017 and 2016, the Organization has reported in-kind contributions in the amount of \$280,669 and \$90,495, respectively, in the accompanying statements of activities.

The Organization receives donated services from unpaid volunteers assisting in the activities of the Organization which do not meet the two recognition criteria described above. Accordingly, the value of these contributed services has not been determined and is not reflected in the accompanying financial statements.

***Functional Expenses*** – Costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Costs are allocated between program services, management and general, costs of direct benefit to donors, and fundraising based on evaluations of the related activities. Management and general expenses are those expenses which are not directly identifiable with any other specific function, but provide for the overall support and direction of the Organization.

**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 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.

**Tax Status** – The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”), and is classified as other than a private foundation under Section 509(a) of the Code. Generally, all revenue earned outside the purpose for which the Organization is created is taxable as earned income. With few exceptions, the Organization is not subject to examination by any tax jurisdiction for years prior to 2014.

**Fair Value Measurements** – The Organization follows Accounting Standards Codification (“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 Organization 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.

Financial assets subject to fair value measurement disclosure requirements include investments and beneficial interest in assets held by others (see Note 3). The Organization has no liabilities carried at fair value on a recurring basis and no assets or liabilities carried at fair value on a non-recurring basis at June 30, 2017 and 2016.

**Reclassifications** – Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. Such reclassifications did not affect net assets or changes in net assets as of and for the year ended June 30, 2016.

**Subsequent Events** – The Organization has evaluated subsequent events through February 9, 2018, which is the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure in the accompanying financial statements.

**Recent accounting pronouncements** – In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 “Revenue from Contracts with Customers (Topic 606).” This authoritative guidance includes a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The FASB has since issued several additional amendments to this guidance. In July 2015, the FASB approved a one-year deferral of the effective date of the new

standard. The effective date of the amended standard will begin in periods beginning after December 15, 2018 and early adoption is permitted but no earlier than for reporting periods beginning after December 15, 2016.

In February 2016, the FASB issued ASU No. 2016-02 “Leases (Topic 842).” The purpose of the guidance is to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet as well as providing additional disclosure requirements related to leasing arrangements. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, though early adoption is permitted.

In August 2016, the FASB issued ASU No. 2016-14, “Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities”. The new guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. The amendments in the standard are effective 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.

Management is currently evaluating the impact that adopting the above recent accounting pronouncements will have on the Organization’s financial statements in future reporting periods.

## **2. BENEFICIAL INTEREST IN ASSETS**

In previous years, the Organization transferred funds to the Community Foundation and specified itself as the beneficiary of the funds. The statements of financial position as of June 30, 2017 and 2016 include the beneficial interest in assets held by others as unrestricted net assets of \$694,985 and \$631,376, respectively, related to these funds. The statements of activities include an increase of \$65,465 and \$4,751 for the years ended June 30, 2017 and 2016, respectively, related to the change in value of the Organization’s beneficial interest in the assets held by others. The Organization received distributions of \$31,091 and \$29,782 related to these reciprocal transfers for the years ended June 30, 2017 and 2016, respectively.

Annually, distributions from the funds are paid to the Organization according to the Community Foundation’s spending policy. The Community Foundation maintains variance power over these funds. 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. In addition to the funds discussed above, the Community Foundation maintains other funds that have been contributed by various donors to the Community Foundation for the benefit of the Organization. These funds are not included as assets of the Organization. The earnings from these funds are paid to the Organization each year in accordance with the Community Foundation’s spending policy. For the years ended June 30, 2017 and 2016, the Organization received \$31,170 and \$30,287, respectively, from the funds which are reported in other grants and contributions in the statements of activities. At June 30, 2017 and 2016, the fair value of the funds was \$680,059 and \$626,214, respectively. The Organization has no remainder interest in the corpus of these funds.

### 3. FAIR VALUE MEASUREMENTS

Assets measured at fair value consist of the following:

	As of June 30, 2017				
	Carrying Value	Total Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
ASSETS					
Investments:					
Cash Equivalents	\$ 37,530	\$ 37,530	\$ 37,530	\$ -	\$ -
Mutual Funds:					
Equity	1,289,920	1,289,920	1,289,920	-	-
Fixed Income	820,770	820,770	820,770	-	-
Total Investments	2,148,220	2,148,220	2,148,220	-	-
Beneficial interest in assets held by others	694,985	694,985	-	-	694,985
	<u>\$ 2,843,205</u>	<u>\$ 2,843,205</u>	<u>\$ 2,148,220</u>	<u>\$ -</u>	<u>\$ 694,985</u>

	As of June 30, 2016				
	Carrying Amount	Total Fair Value	Fair Value Measurements Using		
			Level 1	Level 2	Level 3
ASSETS					
Investments:					
Cash equivalents	\$ 15,181	\$ 15,181	\$ 15,181	\$ -	\$ -
Mutual Funds:					
Equity	1,154,207	1,154,207	1,154,207	-	-
Fixed Income	756,465	756,465	756,465	-	-
Total Investments	1,925,853	1,925,853	1,925,853	-	-
Beneficial Interest in Assets Held by Others	631,376	631,376	-	-	631,376
	<u>\$ 2,557,229</u>	<u>\$ 2,557,229</u>	<u>\$ 1,925,853</u>	<u>\$ -</u>	<u>\$ 631,376</u>

Following is a description of methodologies used for assets valued at fair value.

*Investments:* When quoted prices are available in an active market, securities are classified within Level 1 of the hierarchy. Investments classified as Level 1 include cash equivalents and mutual funds.

*Beneficial interest in assets held by others:* The fair value of the Organization's beneficial interest in assets held by others is based on the fair value of fund investments as reported by the Community Foundation. These are considered to be level 3 investments.

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the years ended June 30, 2017 and 2016.

	2017	2016
Balance at beginning of year	\$ 631,376	\$ 640,232
Purchases / contributions	29,235	16,175
Investment return, net	65,465	4,751
Distributions	(31,091)	(29,782)
Balance at end of year	<u>\$ 694,985</u>	<u>\$ 631,376</u>

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 by the Community Foundation. Net investment performance includes realized and unrealized gains (losses) on investments, investment income, and administrative fees and is included in change in value of beneficial interest in assets held by others in the accompanying statements of activities. Typically, distributions decrease the Organization's respective financial asset and increase cash at the time of distribution

#### 4. BOARD DESIGNATED ENDOWMENT FUNDS

The Organization has two board designated endowment funds including the Centennial Endowment Fund and funds held at the Community Foundation. The Organization initiated the Centennial Endowment Fund in conjunction with the State of Oklahoma's centennial celebration. While founding donors to the Centennial Endowment Fund have not placed any restriction on their gifts, it is the Organization's intention to treat these funds as an endowment with the principal of the gifts being retained and the income used for purposes designated by the board of directors.

##### Return Objectives and Risk Parameters

The Organization has adopted an investment policy for their board-designated endowment assets designed to, in the future, 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, over the long-term to enhance the total value of the endowment through appreciation, contributions, and/or the reinvestment of excess current earnings; preserve capital and avoid the risk of large loss; and maintain sufficient liquidity to provide for all anticipated withdrawals. To satisfy its long-term objectives, the Organization seeks investment returns through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

##### Spending Policy and How the Investment Objectives Relate to Spending Policy

With regards to the Centennial Endowment Fund, the Organization may appropriate earnings for current use with board approval as influenced by the recent investment returns. With regards to the endowment fund held by the Community Foundation, the Organization's distribution policy is subject to the Community Foundation's spending policy. Distributions received from the Community Foundation are available to support the operations of the Organization.

Since the endowments resulted from an internal designation and are not donor-restricted, they are classified as unrestricted net assets. Composition of and changes in unrestricted endowment net assets for the year ended June 30, 2017 and 2016, is as follows:

	2017	2016
Endowment net assets, beginning of year	\$ 2,557,229	\$ 2,622,613
Investment return, net	287,816	8,223
Contributions	34,259	16,175
Appropriation of endowment assets for expenditure	(36,099)	(89,782)
Endowment net assets, end of year	<u>\$ 2,843,205</u>	<u>\$ 2,557,229</u>

**5. NET ASSET RESTRICTIONS**

Temporarily restricted net assets at June 30, 2017 and 2016 are available for the following:

	<u>2017</u>	<u>2016</u>
Time restricted for subsequent period	\$ -	\$ 655,298
	<u>\$ -</u>	<u>\$ 655,298</u>

**6. LEASES**

The Organization has a 12-month lease agreement for office facilities and equipment under which rent expense approximated \$74,640 and \$84,000 for the years ended June 30, 2017 and 2016, respectively.

**7. RELATED PARTY TRANSACTIONS**

During the years ended June 30, 2017 and 2016, the Organization paid approximately \$72,000 and \$81,000, respectively, for the Organization’s office lease from an entity whose ownership includes a member of the Organization’s board of directors.

**8. RETIREMENT PLAN**

The Organization has established a simple IRA Plan for the benefit of all employees with no provision for earning or term of service requirements. The plan provides for the Organization to make contributions to the plan based on matching 100% of up to 3% of salary deferrals elected by each employee, with such matching percentage determined annually by the board of directors. The Organization’s matching contributions for the years ended June 30, 2017 and 2016 totaled \$10,504 and \$10,747, respectively.

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