

East Central University Foundation, Inc.

Financial Statements

June 30, 2017 and 2016
(With Independent Auditors' Report Thereon)



EAST CENTRAL UNIVERSITY FOUNDATION, INC.

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
East Central University Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of East Central University Foundation, Inc. (a nonprofit organization) (the "Foundation"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities 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; 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 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 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 auditors consider 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

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, 2017 and 2016, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2017, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Finley + Cook, PLLC

Shawnee, Oklahoma
September 21, 2017

EAST CENTRAL UNIVERSITY FOUNDATION, INC.**STATEMENTS OF FINANCIAL POSITION**

<i>June 30,</i>	<i>2017</i>	<i>2016</i>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,701,974	1,194,431
Pledges receivable	2,121,735	1,933,880
Interest receivable	47,455	41,905
Certificates of deposit	402,074	136,470
Total current assets	<u>4,273,238</u>	<u>3,306,686</u>
Non-current assets:		
Investments, at fair value	27,800,510	24,786,947
Certificates of deposit, net of current portion	-	259,302
Real estate held as investments	17,500	17,500
Artwork	329,686	329,686
Furniture and equipment, net	2,030	6,895
Other assets	27,824	110,430
Total non-current assets	<u>28,177,550</u>	<u>25,510,760</u>
 Total assets	 <u>\$ 32,450,788</u>	 <u>28,817,446</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ -	4,378
Accrued payroll	-	9,100
Total current liabilities	<u>-</u>	<u>13,478</u>
Net assets:		
Unrestricted	976,331	615,025
Temporarily restricted	11,328,785	8,998,441
Permanently restricted	20,145,672	19,190,502
Total net assets	<u>32,450,788</u>	<u>28,803,968</u>
 Total current liabilities and net assets	 <u>\$ 32,450,788</u>	 <u>28,817,446</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues:				
Contributions:				
Private gifts and grants	\$ 6,203	2,223,326	926,506	3,156,035
Total contributions	<u>6,203</u>	<u>2,223,326</u>	<u>926,506</u>	<u>3,156,035</u>
Investment income:				
Interest and dividends	154,314	462,942	-	617,256
Net investment gains	599,355	1,798,065	-	2,397,420
Total investment income	<u>753,669</u>	<u>2,261,007</u>	<u>-</u>	<u>3,014,676</u>
Other revenues	<u>69</u>	<u>22,550</u>	<u>28,664</u>	<u>51,283</u>
Net assets released from restrictions	<u>2,174,339</u>	<u>(2,174,339)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>2,934,280</u>	<u>2,332,544</u>	<u>955,170</u>	<u>6,221,994</u>
Expenses:				
<u>Programs for the University</u>				
Scholarship awards	577,870	-	-	577,870
General University educational assistance	1,376,166	-	-	1,376,166
Salary supplements	163,782	-	-	163,782
<u>Management and Operating</u>				
Operating expenses	452,491	-	-	452,491
Depreciation	4,865	-	-	4,865
Total expenses	<u>2,575,174</u>	<u>-</u>	<u>-</u>	<u>2,575,174</u>
Transfer from (to) other net assets	<u>2,200</u>	<u>(2,200)</u>	<u>-</u>	<u>-</u>
Increase in net assets	361,306	2,330,344	955,170	3,646,820
Net assets at beginning of year	<u>615,025</u>	<u>8,998,441</u>	<u>19,190,502</u>	<u>28,803,968</u>
Net assets at end of year	<u>\$ 976,331</u>	<u>11,328,785</u>	<u>20,145,672</u>	<u>32,450,788</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues:				
Contributions:				
Private gifts and grants	\$ 92,558	2,740,238	328,665	3,161,461
Total contributions	<u>92,558</u>	<u>2,740,238</u>	<u>328,665</u>	<u>3,161,461</u>
Investment income:				
Interest and dividends	145,680	433,305	-	578,985
Net investment losses	(108,988)	(326,965)	-	(435,953)
Total investment income	<u>36,692</u>	<u>106,340</u>	<u>-</u>	<u>143,032</u>
Other revenues:				
Gain on sale of land	-	-	61,578	61,578
Other	-	62	7,692	7,754
Total other revenues	<u>-</u>	<u>62</u>	<u>69,270</u>	<u>69,332</u>
Net assets released from restrictions	<u>2,316,264</u>	<u>(2,316,264)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>2,445,514</u>	<u>530,376</u>	<u>397,935</u>	<u>3,373,825</u>
Expenses:				
<u>Programs for the University</u>				
Scholarship awards	553,267	-	-	553,267
General University educational assistance	2,112,638	-	-	2,112,638
Salary supplements	184,063	-	-	184,063
<u>Management and Operating</u>				
Operating expenses	398,665	-	-	398,665
Depreciation	5,245	-	-	5,245
Total expenses	<u>3,253,878</u>	<u>-</u>	<u>-</u>	<u>3,253,878</u>
Transfer (to) from other net assets	<u>(154,413)</u>	<u>(18,967)</u>	<u>173,380</u>	<u>-</u>
(Decrease) increase in net assets	<u>(962,777)</u>	<u>511,409</u>	<u>571,315</u>	<u>119,947</u>
Net assets at beginning of year, as restated	<u>1,577,802</u>	<u>8,487,032</u>	<u>18,619,187</u>	<u>28,684,021</u>
Net assets at end of year	<u>\$ 615,025</u>	<u>8,998,441</u>	<u>19,190,502</u>	<u>28,803,968</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

<i>Years Ended June 30,</i>	<i>2017</i>	<i>2016</i>
Cash flows from operating activities:		
Cash received from contributions	\$ 3,050,786	2,986,390
Cash received from interest and other income	662,989	516,054
Cash disbursed for program and faculty expenses	(1,539,948)	(2,296,701)
Cash disbursed for scholarship expenses	(577,870)	(553,267)
Cash disbursed for general support	(465,969)	(395,470)
Net cash provided by operating activities	1,129,988	257,006
Cash flows from investing activities:		
Investment sold	7,324,205	8,429,921
Investment purchased	(7,946,650)	(9,225,106)
Proceeds from real estate held as investments	-	149,078
Net cash used in investing activities	(622,445)	(646,107)
Net increase (decrease) in cash and cash equivalents	507,543	(389,101)
Cash and cash equivalents at beginning of year	1,194,431	1,583,532
Cash and cash equivalents at end of year	\$ 1,701,974	1,194,431
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	\$ 3,646,820	119,947
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	4,865	5,245
Non-cash contribution	-	(32,540)
Net unrealized and realized (gains) losses on investments	(2,397,420)	435,953
Net realized gains on real estate held as investments	-	(61,578)
Increase in pledges receivable	(187,855)	(227,580)
Increase in interest receivable	(5,550)	(1,353)
Decrease in other assets	82,606	15,717
(Decrease) increase in accounts payable	(4,378)	4,378
Decrease in accrued payroll	(9,100)	(1,183)
Net cash provided by operating activities	\$ 1,129,988	257,006
Significant non-cash transactions:		
Donated artwork items	\$ -	24,195
In-kind contributions	\$ -	8,345

See Independent Auditors' Report.
See accompanying notes to financial statements.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

(1) NATURE OF THE ENTITY

East Central University Foundation, Inc. (the “Foundation”) is a nonprofit corporation formed in 1970. The purposes for which the Foundation is organized are exclusively scientific, literary, charitable, educational, and artistic for the benefit of East Central University (the “University”) in Ada, Oklahoma, its faculty, its student body, and its programs. The Foundation may also serve as trustee of charitable lead trusts, charitable remainder trusts, and other private trusts of which the Foundation and/or the University are beneficiaries, notwithstanding the facts that the donors of such trusts retain a beneficial interest therein or that other charitable organizations are designated as beneficiaries of such trusts.

As gifts are received by the Foundation, they are placed into new or existing funds, as appropriate, in accordance with the stipulations of the donors. Distributions of amounts held by the Foundation are subject to the approval of the Board of Trustees (the “Board”). The purposes for which the Foundation is organized are exclusively for the benefit of the University, its faculty, its student body, and its programs. As such, the University and the Foundation are considered financially interrelated as defined by accounting principles generally accepted in the United States.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Foundation follows the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC). The ASC is the single source of authoritative guidance for accounting principles generally accepted in the United States. The statements have been prepared on the accrual basis of accounting. Under accounting principles generally accepted in the United States, net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted net assets—Consist of gifts received by the Foundation without stipulation and accumulated earnings which the Foundation uses for its operations.

Temporarily restricted net assets—Primarily consist of gifts received by the Foundation which have been restricted by the donor for a particular project or activity and accumulated earnings from endowment funds. When a donor restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently restricted net assets—This category represents gifts received by the Foundation with donor restrictions which require the principal to be invested in perpetuity. Generally, income earned from these assets is available to be used for purposes established by the donor in the year received unless restricted to future fiscal periods.

See Independent Auditors’ Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. 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. As of June 30, 2017 and 2016, no allowance was considered necessary.

Contributions are reported as increases in the appropriate category of net assets. 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.

Income and gains on investments are reported as increases in permanently restricted net assets if the terms of the gift that gave rise to the investment or applicable law require such amounts be added to permanent endowment principal. Income and gains are reported as increases in temporarily restricted net assets if the terms of the gift or applicable law impose restrictions on the use of the income and as increases in unrestricted net assets in all other cases.

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

Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments with an original maturity of 3 months or less when purchased to be cash equivalents.

Pledges

The Foundation generally records pledges as income in the period in which a written agreement to contribute cash investments or other assets is received.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments

The Foundation maintains the majority of its endowment assets in a pooled investment fund. Additional investments are maintained separately in accordance with the donor's instructions. Investments are presented in the financial statements of the Foundation at fair value. Investment securities with readily determinable market value information are adjusted to market value, with realized and unrealized appreciation and/or depreciation on investments to be recorded in the statements of activities. Investments included in the pool are certificates of deposit, corporate bonds, mutual funds, and U.S. government securities. The Foundation's investment committee monitors the performance of all investments and instructs Foundation management as to the mix of assets to be maintained in the investment pool. Investments are made in accordance with the investment policies of the Foundation.

Earnings from investments are distributed quarterly from the pooled investment fund and are received by the separately maintained funds. Marketable and nonmarketable investments are marked to market in accordance with ASC Topic 320, "Investments—Debt and Equity Securities."

Real Estate Held as Investments

Real estate held as investments consists primarily of real property and forms of real property interests donated to and/or purchased by the Foundation and are carried at the lower of cost or market. The Foundation holds these assets until such time as they are transferred to the University or sold. No attempt is made by management to revalue other property investments 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 any subsequent revaluation would not have a significant impact on the Foundation's statements of financial position or changes in net assets. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances at the time of determination. No property investment impairments were recorded in 2017 or 2016.

Insurance Assets

Included in other assets was approximately \$19,000 and \$102,000 of cash surrender value assets related to insurance policies owned by the Foundation as of June 30, 2017 and 2016, respectively. During the year ended June 30, 2017, the Foundation cashed in approximately \$112,000 from one of the cash surrender values assets due to the death of the insured.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Non-Cash Contributions

Included in other assets was approximately \$8,000 of donations made by donors of items given to the Foundation as of June 30, 2017 and 2016. The non-cash contributions are recorded at their fair values in the period received. The fair market value is determined using observable prices of identical or similar products.

Conditional Gifts

The Foundation receives contributions with terms that require returns of the contributions to the donors on the occurrence of specified future and uncertain events. The Foundation reports such contributions as liabilities until the likelihood of not meeting the condition is remote. Conditional promises to give are not recorded as revenue until the conditions are substantially met and the gift becomes unconditional.

Investment Income

Investment earnings are allocated to the individual sub-funds of the Foundation on a quarterly basis. These earnings are allocated based upon the individual sub-fund's percentage of participation in the investment pool. Realized and unrealized gains and losses are determined using the specific identification method; however, these transactions are included in the pool's income for allocation purposes.

A portion of investment earnings is allocated to support the operations of the Foundation. The Foundation historically has allocated 25% of investment earnings to operations. The amounts allocated are recorded as interest and dividends in the unrestricted net asset classification in the accompanying statements of activities. Amounts so transferred in excess of the current operations requirements remain in the unrestricted net asset classification for future use as deemed necessary by the Foundation's management and executive committee and to support the Foundation's scholarship program.

Furniture and Equipment

Furniture and equipment are recorded at cost if purchased or at appraised value if received by donation. Furniture and equipment are being depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 10 years. The Foundation records impairments of its property and equipment when it becomes probable that the carrying value of the assets will not be fully recovered over the estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances at the time of the determination. No property or equipment impairments were recorded in 2017 or 2016.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Artwork

Artwork is recorded at the appraised value at the time of donation.

Income Tax

The income earned by the Foundation has been determined to be exempt from income taxes by the Internal Revenue Service in accordance with Internal Revenue Code (IRC) Section 501(c)(3). However, unrelated business income earned by the Foundation is subject to tax. Additionally, the Foundation has been determined not to be a private foundation within the meaning of IRC Section 509(a).

The Foundation evaluates and accounts for its uncertain tax positions, if any, in accordance with ASC Topic 740, "Income Taxes," including the Foundation's tax position as a tax-exempt, not-for-profit entity. Through the Foundation's evaluation of its uncertain tax positions, management has determined no uncertain tax positions existed as of June 30, 2017 or 2016, which would require the Foundation to record a liability for the uncertain tax positions in its financial statements. Interest and penalties, if any, resulting from any uncertain tax position required to be recorded by the Foundation would be presented in operating expenses in the statements of activities. 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 ended on or before June 30, 2014.

Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Estimates that are particularly susceptible to significant change include the valuation of marketable and nonmarketable investments and contributions receivable. The Foundation's various investment instruments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these financial instruments, it is reasonably possible that changes in the values of the investments and beneficial interest 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 estimates of investments, contributions receivable, and the evaluation for allowance are based on consideration of all relevant available information and an analysis of the collectibility of individual contributions, which arise primarily from pledges at the financial statement date.

See Independent Auditors' Report.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Net Asset Reclassifications

The Foundation reclassifies net assets from one net asset category to another as follows:

- a. Net asset reclassifications which result from fulfillment of the purposes for which the net assets were restricted and/or restrictions which expired with the passage of time.
- b. Net asset reclassifications which occur when a donor withdraws or court action removes previously imposed restrictions, when a donor imposes restrictions on otherwise unrestricted net assets, when a donor changes or modifies their existing restriction, and/or when an existing donor restriction requires certain amounts to be reclassified.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported net assets or changes in net assets.

Concentrations of Credit Risk

The Foundation had certain concentrations of credit risk with financial institutions in the form of uninsured cash and time deposits. For purposes of evaluating credit risk, the stability of financial institutions conducting business with the Foundation is periodically reviewed, and management believes that credit risk related to the balances is minimal.

Scholarship Awards

Scholarships are accrued when the disbursements are made to the students, which is when all of the conditions would have been met and the scholarship would have been effectively earned by the student.

Advertising Costs

All costs associated with advertising are expensed as incurred.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Recent Accounting Pronouncements

In May 2014, FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 clarifies the principles for recognizing revenue by providing a more robust framework that will give greater consistency and comparability in revenue recognition practices. In the new framework, an entity recognizes revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. The new model requires the identification of performance obligations included in contracts with customers, a determination of the transaction price, and an allocation of the price to those performance obligations. The entity recognizes revenue when performance obligations are satisfied. In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers—Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is effective for the Foundation’s annual periods beginning after December 15, 2018. Currently, the Foundation has not evaluated the impact on the financial statements of adopting ASU 2014-09.

In August 2014, FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern* (ASU 2014-15). ASU 2014-15 provides guidance on management’s responsibility in evaluating whether there is substantial doubt about the entity’s ability to continue as a going concern and related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year from the date the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016. The amendments in ASU 2014-15 were adopted by the Foundation on July 1, 2016, which did not have a significant effect on the Foundation’s financial statements.

In May 2015, FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2015-07), which amends ASC Topic 820, “Fair Value Measurement” (ASC 820). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. It also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset per share practical expedient. ASU 2015-07 is effective for public business entities for fiscal years beginning after December 15, 2015, and for fiscal years beginning after December 15, 2016, for all other entities. Currently, the Foundation has not evaluated the impact on the financial statements of adopting ASU 2015-07.

See Independent Auditors’ Report.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Recent Accounting Pronouncements, Continued

In January 2016, FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01), which requires all equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value, with changes in the fair value recognized through net income. An entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. ASU 2016-01 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and for financial statements issued for fiscal years beginning after December 15, 2018, for all other entities. Currently, the Foundation has not evaluated the impact on the financial statements of adopting ASU 2016-01.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which requires that lessees recognize on the balance sheet the assets and liabilities for the rights and obligations created by operating leases. ASU 2016-02 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2018, and for financial statements issued for fiscal years beginning after December 15, 2019, for all other entities. Currently, the Foundation has not evaluated the impact on the financial statements of adopting ASU 2016-02.

In June 2016, FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), in order to provide more timely recording of credit losses on loans and other financial instruments. ASU 2016-13 adds an impairment model (known as the current expected credit loss (CECL) model) that is based on expected credit losses rather than incurred credit losses. It requires an organization to measure all expected credit losses for financial assets carried at amortized cost at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 is effective for financial statements issued for fiscal years beginning after December 15, 2020. Currently, the Foundation has not evaluated the impact on the financial statements of adopting ASU 2016-13.

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profits Entities* (ASU 2016-14). ASU 2016-14 will change the way all not-for-profits classify net assets and prepare financial statements. It is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Currently, the Foundation has not evaluated the impact on the financial statements of adopting ASU 2016-14.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Recent Accounting Pronouncements, Continued

In August 2016, FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which clarifies the classification of certain cash receipts and payments in the statement of cash flows. ASU 2016-15 addresses eight cash flow issues, including debt repayment and extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments following a business combination, proceeds from the settlement of insurance claims and corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows. ASU 2016-15 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and for financial statements issued for fiscal years beginning after December 15, 2018, for all other entities. Currently, the Foundation has not evaluated the impact on the financial statements of adopting ASU 2016-15.

In November 2016, FASB issued ASU No. 2016-18, *Restricted Cash* (ASU 2016-18), which requires restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2017, and for financial statements issued for fiscal years beginning after December 15, 2018, for all other entities. Currently, the Foundation has not evaluated the impact on the financial statements of adopting ASU 2016-18.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through September 21, 2017, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

(3) **CASH AND CASH EQUIVALENTS**

A summary of the cash and cash equivalents at June 30 is as follows:

	<u>2017</u>	<u>2016</u>
Cash in bank	\$ 760,129	316,992
Money market account held at TIAA investors	<u>941,845</u>	<u>877,439</u>
	<u>\$ 1,701,974</u>	<u>1,194,431</u>

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH AND CASH EQUIVALENTS, CONTINUED

Custodial Credit Risk—Deposits

The Foundation had the following depository accounts as of June 30. All deposits are carried at cost.

<u>Depository Account</u>	<u>2017</u>		<u>2016</u>	
	<u>Reported Amount</u>	<u>Bank Balance</u>	<u>Reported Amount</u>	<u>Bank Balance</u>
Insured	\$ 250,000	250,000	250,000	250,000
Uninsured and uncollateralized	<u>1,451,974</u>	<u>1,468,224</u>	<u>944,431</u>	<u>1,106,541</u>
	<u>\$ 1,701,974</u>	<u>1,718,224</u>	<u>1,194,431</u>	<u>1,356,541</u>

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned. While the Foundation's investment policies do not address bank balances (other than money markets) that are uninsured or uncollateralized, deposits are generally required to be insured or collateralized.

(4) PLEDGES RECEIVABLE

Pledges receivable represent commitments by donors to contribute to the Foundation. The scheduled amounts to be received as of June 30 were as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2017</u>			
Amounts due in:			
1 to 5 years	<u>\$ 1,957,000</u>	<u>164,735</u>	<u>2,121,735</u>
<u>2016</u>			
Amounts due in:			
1 to 5 years	<u>\$ 1,413,931</u>	<u>519,949</u>	<u>1,933,880</u>

Pledges receivable that are expected to be collected in less than 1 year are recorded at net realizable value. Pledges receivable in subsequent years have not been discounted to net realizable value, the effect of which is considered to be insignificant to the financial statements. The commitments are to be paid as specified by the individual pledge agreements and, accordingly, are presented as temporarily restricted or permanently restricted net assets in the accompanying financial statements.

An allowance for possible uncollectible pledge receivables is not considered necessary by management as the pledges are monitored and any deemed uncollectible are written off as determined.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) INVESTMENTS

The Foundation primarily uses an investment manager to manage the investments, which includes purchasing and sales. As of June 30, 2017 and 2016, the investment manager was the Teachers' Insurance and Annuity Association (TIAA).

As of both June 30, 2017 and 2016, the Foundation's target allocation and allocation range for assets were as follows:

Asset Class	Target Asset Allocation	Allocation Range
Cash equivalents	<u>1%</u>	1%–4%
Core fixed income	24%	
Treasury inflation protected securities (TIPS)	8%	
High yield fixed income	6%	
International fixed income	<u>6%</u>	
Total fixed income	<u>44%</u>	35%–55%
U.S. large cap equity	23%	
U.S. mid cap equity	7%	
U.S. small cap equity	4%	
International large/mid cap equity	12%	
International small cap equity	3%	
Emerging markets equity	3%	
Real estate (REIT)	<u>3%</u>	
Total equity	<u>55%</u>	45%–65%
Total	<u>100%</u>	

The investment policy also has certain specific prohibitions, such as no more than a 25% concentration of investments in one industry, nor more than a 5% ownership of any one company or more than 5% ownership of securities of a single issuer, other than the U.S. government.

The policy requires evaluation and reallocation as needed.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) INVESTMENTS, CONTINUED

Investment securities are presented at fair value. Fair values were determined on the basis of closing prices at June 30, as quoted on major stock exchanges or over-the-counter markets.

	<u>Cost</u>	<u>Fair Value</u>	<u>Excess (Deficit) of Fair Value Over Cost</u>
<u>2017</u>			
U.S. government securities	\$ 3,574,477	3,549,715	(24,762)
Corporate bonds	2,080,598	2,081,476	878
Mutual funds	20,277,078	22,169,319	1,892,241
Certificates of deposit	<u>402,074</u>	<u>402,074</u>	<u>-</u>
	<u>\$ 26,334,227</u>	<u>28,202,584</u>	<u>1,868,357</u>
<u>2016</u>			
U.S. government securities	\$ 3,267,865	3,337,136	69,271
Corporate bonds	2,213,287	2,278,394	65,107
Mutual funds	19,483,523	19,171,417	(312,106)
Certificates of deposit	<u>395,772</u>	<u>395,772</u>	<u>-</u>
	<u>\$ 25,360,447</u>	<u>25,182,719</u>	<u>(177,728)</u>

The Foundation recognized \$351,334 and \$419,009 during 2017 and 2016, respectively, from net gains on the sale of investments. These gains have been combined with unrealized gains and losses and allocated throughout the year through the consolidated investment pool.

Operating expenses in the statements of activities included investment consulting, management, and custodial fees of approximately \$75,000 and \$71,000 for the years ended June 30, 2017 and 2016, respectively.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) INVESTMENTS, CONTINUED

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

The following table provides information as of June 30 concerning the fair value and maturity of investments:

Type of Investment	6 Months or Less	More Than 6 Months to 1 Year	More Than 1 Year to 3 Years	More Than 3 Years to 5 Years	More Than 5 Years	Total Fair Value	Cost
<u>2017</u>							
U.S. government securities	\$ -	-	1,528,648	1,010,309	1,010,758	3,549,715	3,574,477
Corporate bonds	-	-	620,429	510,430	950,617	2,081,476	2,080,598
Mutual funds (no maturity)	-	-	-	-	-	22,169,319	20,277,078
Certificates of deposit	136,938	265,136	-	-	-	402,074	402,074
	<u>\$ 136,938</u>	<u>265,136</u>	<u>2,149,077</u>	<u>1,520,739</u>	<u>1,961,375</u>	<u>28,202,584</u>	<u>26,334,227</u>
<u>2016</u>							
U.S. government securities	\$ -	-	1,740,284	754,948	841,904	3,337,136	3,267,865
Corporate bonds	-	-	802,724	642,537	833,133	2,278,394	2,213,287
Mutual funds (no maturity)	-	-	-	-	-	19,171,417	19,483,523
Certificates of deposit	136,470	-	259,302	-	-	395,772	395,772
	<u>\$ 136,470</u>	<u>-</u>	<u>2,802,310</u>	<u>1,397,485</u>	<u>1,675,037</u>	<u>25,182,719</u>	<u>25,360,447</u>

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) INVESTMENTS, CONTINUED

Credit Risk

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The following tables provide information concerning credit risk as of June 30:

	<u>Moody's Rating</u>	2017		
		<u>Cost</u>	<u>Fair Value (FV)</u>	<u>FV as a % of Total FV</u>
AAA		\$ 3,368,298	3,340,436	11.844%
AA1		125,252	120,482	0.427%
A1		539,015	542,276	1.923%
A2		86,964	86,993	0.308%
A3		558,264	563,874	1.999%
BAA1 ⁺		356,646	354,156	1.256%
BAA2*		165,026	166,575	0.591%
BAA3		126,120	126,282	0.448%
Not rated:				
U.S. government securities:				
	Federal National Mortgage Association	329,490	330,117	1.171%
	Mutual funds	20,277,078	22,169,319	78.607%
	Certificates of deposit	402,074	402,074	1.426%
		<u>\$ 26,334,227</u>	<u>28,202,584</u>	<u>100.000%</u>

⁺Individual investment had a Standard & Poor's (S&P) rating of BBB+ at June 30, 2017.

*Individual investment had an S&P rating of BBB at June 30, 2017.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) INVESTMENTS, CONTINUED

Credit Risk, Continued

	<u>Moody's Rating</u>	2016		
		<u>Cost</u>	<u>Fair Value (FV)</u>	<u>FV as a % of Total FV</u>
AAA		\$ 2,952,338	3,020,164	11.993%
AA1		88,905	93,523	0.371%
AA2		149,000	150,669	0.598%
AA3		336,483	345,260	1.371%
A1		216,742	218,235	0.867%
A2		170,683	177,201	0.704%
A3		319,920	332,373	1.320%
BAA1 ⁺		549,833	566,515	2.250%
BAA2 [*]		267,946	273,757	1.087%
BAA3		113,774	120,861	0.480%
Not rated:				
U.S. government securities:				
	Federal Home Loan Mortgage Corp.	154,756	155,179	0.616%
	Federal National Mortgage Association	160,772	161,793	0.642%
	Mutual funds	19,483,523	19,171,417	76.129%
	Certificates of deposit	<u>395,772</u>	<u>395,772</u>	<u>1.572%</u>
		<u>\$ 25,360,447</u>	<u>25,182,719</u>	<u>100.000%</u>

⁺Individual investment had an S&P rating of AA- at June 30, 2016.

^{*}Individual investment had an S&P rating of A- at June 30, 2016.

As of June 30, 2017 and 2016, the Foundation's investment balance included \$402,074 and \$395,772, respectively, of certificates of deposit held at financial institutions. The certificates of deposit are insured by the corresponding financial institution up to \$250,000, which is the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Share Insurance Fund (NCUSIF) limit. At June 30, 2017 and 2016, there was a concentration (uninsured amount) of approximately \$15,000 and \$9,000, respectively.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) INVESTMENTS, CONTINUED

Custodial Risk

For investments, custodial risk is the risk that in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

(6) REAL ESTATE HELD AS INVESTMENTS

The Foundation owns:

- A lot located at the corner of Arlington and Mississippi in Ada, Oklahoma, for the purpose of establishing the William Chapman Accounting Scholarship.
- Lots 17 and 18, block 1, Section 3 of Arrowhead Estates, Pittsburg County, Oklahoma.

A summary of real estate held as investments at June 30 is as follows:

	<u>2017</u>	<u>2016</u>
Land:		
Lot, Arlington and Mississippi, Ada, Oklahoma	\$ 12,500	12,500
Lots 17 and 18 in Arrowhead Estates, Pittsburg County, Oklahoma	<u>5,000</u>	<u>5,000</u>
	<u>\$ 17,500</u>	<u>17,500</u>

The properties have been recorded at their appraised value at the date the gift was given.

In 2016, 35 acres located south of Ada in the vicinity of the Robert S. Kerr Environmental Research Center, described as follows: SW/4 NE/4 Section 15-T3N-R6E, less an Indian Cemetery 85' x 94' in the NW corner, Pontotoc County, was sold by the Foundation. The Foundation recognized a gain on the sale of the land of approximately \$62,000. Based on the donor agreement, the income and sales proceeds received from the land were contributed to an existing endowment. As such, the gain on the sale of the land was properly reflected as an increase of permanently restricted net assets.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) ARTWORK

During 2014, the Foundation received a donation of various pieces of artwork. The artwork is not being held as an investment. Each item is cataloged for educational, research, scientific, or curatorial purposes, and activities verifying the existence and assessing the condition of the items are performed continuously. The artwork was recorded at appraised value at the date the gift was given. There will be no planned depreciation of the artwork as it will be reviewed periodically for impairment. During 2016, the Foundation received another donation of various pieces of artwork appraised at approximately \$24,000. This artwork also is not being held as an investment and is respectively cataloged and assessed in the same manner as the existing artwork. At both June 30, 2017 and 2016, the combined artwork had a total value of approximately \$330,000.

(8) FURNITURE AND EQUIPMENT

As of June 30, furniture and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 33,347	33,347
Less accumulated depreciation	<u>(31,317)</u>	<u>(26,452)</u>
Net furniture and equipment	<u>\$ 2,030</u>	<u>6,895</u>

Depreciation expense was \$4,865 and \$5,245 for 2017 and 2016, respectively.

(9) DEPOSITS HELD FOR OTHERS

The Foundation occasionally receives money on behalf of other entities and acts as a custodian of the funds. These amounts received were not considered to be significant to the Foundation's financial statements at June 30, 2017 or 2016.

(10) RESTRICTED NET ASSET COMPOSITION

Temporarily and permanently restricted net assets are predominantly restricted for scholarships and assistance to the University.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(11) RETIREMENT PLANS

The Foundation has two employees who participate in the retirement plans and benefit programs of the University. The plans available include the Oklahoma Teachers' Retirement System (OTRS), which is a State of Oklahoma public employees' retirement system, TIAA, which is a defined contribution plan, and the Supplemental Retirement Annuity, a single-employer defined benefit pension plan available to employees hired prior to July 1, 1987. During the years ended June 30, 2017 and 2016, the Foundation paid approximately \$17,000 and \$8,000, respectively, to the OTRS.

The Foundation has not disclosed any amounts or items required by Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. As the Foundation employees are considered employees of the University, all such disclosures will be made by the University.

(12) RELATED-PARTY TRANSACTIONS

The Foundation occupies, without charge, certain premises located on the campus of the University.

The Foundation benefits from voluntary services donated by related individuals and businesses which have not been reflected in the financial statements due to their immateriality.

During 2017 and 2016, the Foundation had a Board member who also serves as president of a bank where the Foundation has two certificates of deposit. At June 30, 2017 and 2016, the certificates of deposit had a book balance of \$136,938 and \$136,470, respectively. In addition, at June 30, 2017 and 2016, the Foundation had \$760,129 and \$316,992, respectively, on deposit at a local bank, for which two Board members of the Foundation also serve as officers.

(13) GENERAL UNIVERSITY EDUCATIONAL ASSISTANCE

General University educational assistance consists of general expenses for various University organizations and programs. During FY 2015-2016, the Foundation made a one-time distribution of \$600,000 (see Note 16). Through the temporarily restricted fund, the Foundation transferred approximately \$839,000 to the unrestricted fund, which was paid to the University for work performed on the Chickasaw Plaza. During 2017, these types of one-time distributions were not made.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(14) ENDOWMENTS

As of June 30, 2017 and 2016, the Foundation's endowments consist of 299 and 294, respectively, individual donor-restricted funds established for a variety of scholarships and activities. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. The endowments represent only those net assets that are under the control of the Foundation.

Interpretation of Relevant Law

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the purchasing power of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Therefore, the Foundation classifies as permanently restricted net assets 1) the original value of endowed gifts, 2) the original value of any subsequent gifts, and 3) any accumulations to the permanent endowment made in accordance with the direction of the donor gift instrument at the time the accumulation is added to the fund.

Spending Policy

The Foundation has established a spending policy whereby the total amount available to be disbursed (i.e., the "Distributable Cash Income") from the Foundation's endowment fund and operating fund is determined annually.

The Distributable Cash Income is determined using the most recent 5-year average return on investments (ROI). The purpose of the spending policy is to establish an overall spending limit for the amount of money that can be disbursed from the Foundation's endowment fund and operating fund each fiscal year. The spending policy limit is determined by March 31 of each year and is used for budgeting purposes for the following fiscal year that starts on July 1.

The primary goal of the spending policy is to position the endowment fund and the unrestricted fund so that there is a balance between long-term growth and accumulation versus annual distributions.

The spending policy utilizes the most recent 5-year average ROI percentage, which allows for long-term ROI trends to be built into the spending policy. The spending policy calculation will have an annual floor and ceiling which will enable the Foundation to spend a base amount from the endowment fund in low ROI periods and have extra savings in high ROI periods.

Funds with Deficit Balances

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 UPMIFA requires the Foundation to retain as a fund of perpetual duration. No deficit balances of this nature were reported in unrestricted net assets at June 30, 2017 or 2016.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(14) ENDOWMENTS, CONTINUED

Net Asset Composition of Endowments

The net asset composition of endowments by type of fund as of June 30 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2017</u>				
Donor-restricted endowment funds	\$ -	-	20,145,672	20,145,672
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>2016</u>				
Donor-restricted endowment funds	\$ -	-	19,190,502	19,190,502
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

As can be seen, all of the Foundation's endowments are classified as permanently restricted.

Changes in Net Assets of Endowments

Changes in the net assets of endowments for the years ended June 30 were as follows:

	<u>Permanently Restricted</u>	<u>2017</u>	<u>2016</u>
Net assets, beginning of year		\$ 19,190,502	18,619,187
Contributions and revenues		955,170	397,935
Transfer from other net assets		<u> -</u>	<u> 173,380</u>
Net assets, end of year		<u>\$ 20,145,672</u>	<u>19,190,502</u>

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(15) FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In estimating fair value, the Foundation utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset. Fair values may not represent actual values of assets that could have been realized on the measurement date or that will be realized in the future. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The estimated fair values of the Foundation's financial instruments at June 30 were as follows:

	Estimated Fair Value and <u>Carrying Amount</u>	
	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 1,701,974	1,194,431
Investments	28,202,584	25,182,719

ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs consist of unobservable inputs which are used when observable inputs are unavailable and reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities. Real estate held as investments would be valued using Level 3 inputs.

The Foundation uses appropriate valuation methods based on the available inputs to measure the fair value of its assets and liabilities.

See Independent Auditors' Report.

(15) **FAIR VALUE MEASUREMENTS, CONTINUED**

Fair Value Measured on a Recurring Basis

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

Cash, Cash Equivalents, and Certificates of Deposit

The carrying amounts approximate fair value due to its short maturity.

Investments

The fair values of mutual funds are based on quoted market prices for identical assets in active markets utilizing Level 1 inputs. Fair values for U.S. government securities and corporate bonds, for the most part, are obtained from independent pricing services utilizing Level 2 inputs. The fair value measurements considered to be observable inputs may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other things.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(15) FAIR VALUE MEASUREMENTS, CONTINUED

Fair Value Measured on a Recurring Basis, Continued

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30:

	Assets Measured at <u>Fair Value</u>	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2017</u>				
U.S. government securities	\$ 3,549,715	-	3,549,715	-
Corporate bonds	2,081,476	-	2,081,476	-
Mutual funds	22,169,319	22,169,319	-	-
Certificates of deposit	<u>402,074</u>	<u>-</u>	<u>402,074</u>	<u>-</u>
	<u>\$ 28,202,584</u>	<u>22,169,319</u>	<u>6,033,265</u>	<u>-</u>
<u>2016</u>				
U.S. government securities	\$ 3,337,136	-	3,337,136	-
Corporate bonds	2,278,394	-	2,278,394	-
Mutual funds	19,171,417	19,171,417	-	-
Certificates of deposit	<u>395,772</u>	<u>-</u>	<u>395,772</u>	<u>-</u>
	<u>\$ 25,182,719</u>	<u>19,171,417</u>	<u>6,011,302</u>	<u>-</u>

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(15) FAIR VALUE MEASUREMENTS, CONTINUED

Fair Value Measured on a Nonrecurring Basis

The following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. The valuation methodologies are consistently applied from year to year.

Real Estate Held as Investments

The fair values of real estate held as investments are based on management's estimated fair values using unobservable Level 3 inputs. At June 30, 2017 and 2016, the fair market values remained the same.

The Foundation had real estate held as investments carried at fair value on a nonrecurring basis at both June 30, 2017 and 2016. Those investments had a fair market value of \$17,500 as of June 30, 2017 and 2016.

(16) COMMITMENTS AND CONTINGENCIES

Planned Distribution to the University

In May 2015, the Foundation made a commitment to provide a one-time distribution to the University in fiscal year 2015-2016 to recompense the University for anticipated budget reductions from the State of Oklahoma. The one-time distribution is to be the lesser of \$600,000 or the actual budget reduction amount noted by the Oklahoma State Regents for Higher Education. The distribution:

- Was made from the Foundation's Unrestricted Fund;
- Was a one-time distribution from the Foundation to the University; and
- Replaced any other distributions to the University from the Unrestricted Fund that were planned for 2015-2016 as a result of the updated Spending Policy and the Unrestricted Fund Balance Policy.

During FY 2015-2016, the Foundation made the distribution of \$600,000 to the University. No similar commitment has been made for the 2016-2017 fiscal year.

See Independent Auditors' Report.



**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
East Central University Foundation, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Central University Foundation, Inc. (a nonprofit organization) (the "Foundation"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, CONTINUED**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Shawnee, Oklahoma
September 21, 2017

Finley + Cook, PLLC