

East Central University Foundation, Inc.

Financial Statements

June 30, 2019 and 2018
(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, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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 Foundation'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 Foundation'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, 2019 and 2018, 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.

Emphasis of Matter

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, on July 1, 2018, the Foundation implemented Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). As a result of implementing ASU 2016-14, the net assets as of June 30, 2017, and July 1, 2018, were reclassified into the classification of without donor restrictions or with donor restrictions. The Foundation also added the presentation of statements of functional expenses and added certain footnote disclosures required by ASU 2016-14. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2019, 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 solely 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 the effectiveness of the Foundation's 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 11, 2019

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

<i>June 30,</i>	<i>2019</i>	<i>2018</i>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,128,018	1,578,281
Pledges receivable—current	568,990	577,575
Interest receivable	59,428	65,472
Investments, at fair value	<u>1,221,179</u>	<u>138,161</u>
Total current assets	<u>2,977,615</u>	<u>2,359,489</u>
Non-current assets:		
Pledges receivable—non-current	413,335	1,021,300
Investments, at fair value	31,797,612	29,319,052
Real estate held as investments	12,500	17,500
Artwork	329,686	329,686
Furniture and equipment, net	198	913
Other assets	<u>33,153</u>	<u>28,484</u>
Total non-current assets	<u>32,586,484</u>	<u>30,716,935</u>
Total assets	<u>\$ 35,564,099</u>	<u>33,076,424</u>
Liabilities and Net Assets		
Liabilities:		
Total liabilities	\$ -	-
Net assets:		
Without donor restrictions	1,069,776	1,038,116
With donor restrictions	<u>34,494,323</u>	<u>32,038,308</u>
Total net assets	<u>35,564,099</u>	<u>33,076,424</u>
Total liabilities and net assets	<u>\$ 35,564,099</u>	<u>33,076,424</u>

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

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Contributions:						
Private gifts and grants	\$ 144	3,386,248	3,386,392	533	1,443,451	1,443,984
Total contributions	144	3,386,248	3,386,392	533	1,443,451	1,443,984
Investment income:						
Interest and dividends	199,028	597,085	796,113	173,307	519,392	692,699
Net investment gains	244,126	735,468	979,594	263,612	790,838	1,054,450
Total investment income	443,154	1,332,553	1,775,707	436,919	1,310,230	1,747,149
Other revenues	-	2,074	2,074	-	4,860	4,860
Net assets released from restrictions	2,266,760	(2,266,760)	-	2,211,020	(2,211,020)	-
Total revenues	2,710,058	2,454,115	5,164,173	2,648,472	547,521	3,195,993
Expenses:						
Program activities for the University	2,288,411	-	2,288,411	2,239,864	-	2,239,864
Management and operating	348,053	-	348,053	304,835	-	304,835
Fundraising	40,034	-	40,034	25,658	-	25,658
Total expenses	2,676,498	-	2,676,498	2,570,357	-	2,570,357
Transfer (to) from other net assets	(1,900)	1,900	-	(16,330)	16,330	-
Increase in net assets	31,660	2,456,015	2,487,675	61,785	563,851	625,636
Net assets at beginning of period	1,038,116	32,038,308	33,076,424	976,331	31,474,457	32,450,788
Net assets at end of period	\$ 1,069,776	34,494,323	35,564,099	1,038,116	32,038,308	33,076,424

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

EAST CENTRAL UNIVERSITY FOUNDATION, INC.**STATEMENTS OF FUNCTIONAL EXPENSES**

<i>Years Ended June 30,</i>	<i>2019</i>	<i>2018</i>
Expenses:		
Program activities for the University:		
Scholarship awards	\$ 645,288	561,880
General university educational assistance	<u>1,643,123</u>	<u>1,677,984</u>
Total programs for the University	<u>2,288,411</u>	<u>2,239,864</u>
Management and operating:		
Salaries and benefits	268,006	233,141
Accounting services	20,676	19,208
Audit fees	23,850	23,285
Credit card fees	3,289	5,497
Depreciation	715	1,117
Insurance	4,950	4,950
Legal fees	9,732	-
Software	7,816	7,508
Supplies	4,276	3,205
Other	4,743	6,924
Total management and operating	<u>348,053</u>	<u>304,835</u>
Fundraising:		
Campaigns—fundraising expenses	4,600	11,381
Constituent/donor meetings	1,542	2,563
Postage	1,494	1,578
Printing	4,499	180
Software	8,184	-
Sponsorships	11,635	6,485
Travel	8,080	3,471
Total fundraising	<u>40,034</u>	<u>25,658</u>
Total expenses	<u>\$ 2,676,498</u>	<u>2,570,357</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>2019</i>	<i>2018</i>
Cash flows from operating activities:		
Cash received from contributions	\$ 3,998,272	1,856,871
Cash received from interest and other income	2,287,514	1,387,516
Cash disbursed for program and faculty expenses	(1,643,123)	(1,677,984)
Cash disbursed for scholarship expenses	(645,288)	(561,880)
Cash disbursed for general support	(469,082)	(408,715)
Net cash provided by operating activities	3,528,293	595,808
Cash flows from investing activities:		
Investment sold	10,159,906	8,213,877
Investment purchased	(14,144,062)	(8,933,378)
Proceeds from sale of real estate	5,600	-
Net cash used in investing activities	(3,978,556)	(719,501)
Net decrease in cash and cash equivalents	(450,263)	(123,693)
Cash and cash equivalents at beginning of year	1,578,281	1,701,974
Cash and cash equivalents at end of year	\$ 1,128,018	1,578,281
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	\$ 2,487,675	625,636
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	715	1,117
Non-cash private stock contribution	-	(109,313)
Net unrealized and realized losses (gains) on investments	425,671	(689,728)
Realized gain on sale of real estate	(600)	-
Decrease in pledges receivable	616,550	522,860
Decrease (increase) in interest receivable	6,044	(18,017)
(Increase) decrease in certificates of deposit	(3,093)	263,913
Increase in other assets	(4,669)	(660)
Net cash provided by operating activities	\$ 3,528,293	595,808

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

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

(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.

Program Activities for the University

Scholarship Awards—The Foundation raises funds annually to assist select students with their costs related to their higher education pursuit. The Foundation also assists with special one-time student needs that arise and helps keep students pursuing and finishing their degree. Additional support may be granted for special one-time projects where an educational benefit will be made available for students.

General University Educational Assistance—The Foundation was organized to provide scientific, literary, charitable, educational, and artistic support for the benefit of the University, its faculty, its student body, and its programs. This is done through aiding the University faculty/staff, its educational programs, its building projects, and its assistance with institutional outreach.

See Independent Auditors’ Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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:

Net assets without donor restrictions—Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the Board of Trustees.

Net assets with donor restrictions —Net assets subject to restrictions imposed by donors. Some donor restrictions are temporary in nature. Those restrictions will be met by action of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donors have stipulated the funds be maintained in perpetuity. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investment for general or specific donor-imposed purposes.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, the net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

See Independent Auditors' Report.

(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, 2019 and 2018, no allowance was considered necessary.

Contributions received are reported as either revenues without donor restrictions or revenues with donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gifts of property and equipment are recorded as support without donor restrictions unless explicit donor stipulations specify how the assets must be used, in which case the gift is recorded as support with donor restrictions. Expirations of 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 contributions without donor restrictions.

Income and gains on investments are reported as increases in net assets with donor restrictions if the terms of the gift that gave rise to the investment or applicable law require such amounts be added to endowment principal or if the terms of the gift or applicable law impose restrictions on the use of the income and as increases in net assets without donor restrictions in all other cases.

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.

(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 reported at fair value calculated in accordance with ASC Topic 820, "Fair Value Measurement" (ASC 820). 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. Fair value is determined based on quoted market prices, observable inputs, or unobservable inputs. Investments included in the pool are certificates of deposit, corporate bonds, mutual funds, privately-owned corporate stock, 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.

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. The Foundation sold one piece of real property for \$5,600 in 2019. No property investment impairments were recorded in 2019 or 2018.

Other Assets

Included in other assets was approximately \$20,000 of cash surrender value assets related to insurance policies owned by the Foundation as of both June 30, 2019 and 2018.

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 \$13,000 and \$8,000 of donations made by donors of items given to the Foundation as of June 30, 2019 and 2018, respectively. 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.

During the year ended June 30, 2018, a related party made a stock donation of 4,125 shares of privately owned corporate stock. The corporate stock was evaluated at \$27.25 and \$26.50 per share at June 30, 2019 and 2018, respectively, resulting in a fair market value of \$112,406 and \$109,313, respectively. This corporate stock gift is included in investments on the statements of financial position.

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. Investment earnings were netted with related external investment fees.

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 net asset without donor restrictions in the accompanying statements of activities. Amounts so transferred in excess of the current operations requirements remain in the net asset without donor restrictions for future use as deemed necessary by the Foundation's management and Board of Trustees and to support the Foundation's scholarship program.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 for the year ended June 30, 2019 or 2018.

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, 2019 or 2018, 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, 2016.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of 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.

See Independent Auditors' Report.

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

Use of Estimates, Continued

Estimates that are particularly susceptible to significant change include the valuation of investments and pledges 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, pledges 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.

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 net assets without donor restrictions, when a donor changes or modifies their existing restriction, and/or when an existing donor restriction requires certain amounts to be reclassified.

Functional Allocation of Expenses

The statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Foundation are reported as expenses of those functional areas. Expenses that are attributable to more than one program or supporting function are allocated on the basis of time and effort; there were no such allocated expenses for the year ended June 30, 2019 or 2018.

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.

See Independent Auditors' Report.

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

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 students.

Advertising Costs

All costs associated with advertising are expensed as incurred.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (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 entity's annual periods beginning after December 15, 2018. The Foundation is currently evaluating the impact on the financial statements of adopting ASU 2014-09.

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 simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. 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 financial statements issued for fiscal years beginning after December 15, 2018. In February 2018, FASB issued ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities*, which clarifies certain aspects of the guidance issued in ASU 2016-01. Adoption of ASU 2016-01 is not expected to have a significant effect on the Foundation's financial statements.

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 financial statements issued for fiscal years beginning after December 15, 2019. The Foundation is currently evaluating the impact on the financial statements of adopting ASU 2016-02.

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

Recent Accounting Pronouncements. Continued

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 amends the current reporting model for not-for-profit entities and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all not-for-profit entities present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment earnings, net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of not-for-profit financial statements. In addition, ASU 2016-14 removes the requirement that not-for-profit entities that choose to prepare the statements of cash flows using the direct method must also present a reconciliation (the indirect method). The Foundation adopted ASU 2016-14 on July 1, 2018, which had a significant impact on the presentation of the Foundation’s financial statements. The requirements of ASU 2016-14 resulted in the reclassification of the net assets for 2018 into the new titles, the presentation of statements of functional expenses, and the addition of certain footnotes.

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 financial statements issued for fiscal years beginning after December 15, 2018. The Foundation is currently evaluating the impact of adopting ASU 2016-15 on its financial statements.

See Independent Auditors’ Report.

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

Recent Accounting Pronouncements. Continued

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 financial statements issued for fiscal years beginning after December 15, 2018. The Foundation is currently evaluating the impact on the financial statements of adopting ASU 2016-18.

In December 2016, FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, "Revenue from Contracts with Customers"* (ASU 2016-20), which affects narrow aspects of the guidance issued in ASU 2014-09. ASU 2016-20 is effective for financial statements issued for fiscal years beginning after December 15, 2018. The Foundation is currently evaluating the impact of adopting ASU 2016-20 on its financial statements.

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), which clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. ASU 2018-08 clarifies how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. ASU 2018-08 clarifies that, consistent with current GAAP, in instances in which a resource provider is not itself receiving commensurate value for the resources provided, an entity must determine whether a transfer of assets represents a payment from a third-party payer on behalf of an existing exchange transaction between the recipient and an identified customer. If so, other guidance (for example, ASC Topic 606) applies. The amendments in ASU 2018-08 apply to both resources received by a recipient and resources given by a resource provider, except for transfers of assets from government entities to business entities. ASU 2018-08 is effective for transactions in which an entity serves as the resource recipient for periods beginning after December 15, 2018. ASU 2018-08 is effective for transactions in which an entity serves as the resource provider for periods beginning after December 15, 2019. The Foundation is currently evaluating the impact on the financial statements of adopting ASU 2018-08.

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 2018, FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13), which removes, modifies, and adds disclosure requirements on fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. In addition, early adoption of any removed or modified disclosures and delayed adoption of the additional disclosures until the effective date is also permitted. The Foundation is currently evaluating the impact on the financial statements of adopting ASU 2018-13.

In December 2018, FASB issued ASU No. 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors* (ASU 2018-20), which permits lessors, as an accounting policy election, to not evaluate whether certain sales taxes and other similar taxes are lessor costs (as described in ASC Paragraph 842-10-15-30(b)) or lessee costs. Instead, those lessors will account for those costs as if they are lessee costs. ASU 2018-20 requires lessors to exclude from variable payments, and therefore revenue, lessor costs paid by lessees directly to third parties. ASU 2018-20 has the same effective date as ASU 2016-02. The Foundation is currently evaluating the impact on the financial statements of adopting ASU 2018-20.

Date of Management’s Review of Subsequent Events

Management has evaluated subsequent events through September 11, 2019, 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>2019</u>	<u>2018</u>
Cash in bank	\$ 100,972	21,406
Money market account held at TIAA	<u>1,027,046</u>	<u>1,556,875</u>
	<u>\$ 1,128,018</u>	<u>1,578,281</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, 2019 and 2018. All deposits are carried at cost.

<u>Depository Account</u>	<u>2019</u>		<u>2018</u>	
	<u>Reported Amount</u>	<u>Bank Balance</u>	<u>Reported Amount</u>	<u>Bank Balance</u>
Insured	\$ 100,972	136,606	21,406	65,502
Uninsured and uncollateralized	<u>1,027,046</u>	<u>1,027,046</u>	<u>1,556,875</u>	<u>1,556,875</u>
	<u>\$ 1,128,018</u>	<u>1,163,652</u>	<u>1,578,281</u>	<u>1,622,377</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) LIQUIDITY AND AVAILABILITY

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, the Foundation receives support without donor restrictions; such support has historically represented less than 5% of annual program funding needs, with the remainder funded by investment income without donor restrictions and appropriated earnings from gifts with donor restrictions.

The Foundation considers investment income without donor restrictions; appropriated earnings from donor-restricted endowments; and contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include program commitments, as well as management, operating, and fundraising expenses expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) LIQUIDITY AND AVAILABILITY, CONTINUED

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability, including compliance with the Foundation's spending policy, which establishes limits on the amount of funds used for general expenditures each year.
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long-term commitments and obligations under endowments with donor restrictions that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The Foundation strives to maintain financial assets at a level to adequately fund 100% of the forecasted annual program commitments and management, operating, and fundraising expenses. The table below presents financial assets available for these general expenditures within 1 year at June 30, 2019:

Financial assets at year-end:	
Cash and cash equivalents	\$ 1,128,018
Pledges receivable	982,325
Interest receivable	59,428
Investments	<u>33,018,791</u>
Total financial assets	<u>35,188,562</u>
Less amounts not available to be used within 1 year due:	
Investments in non-liquid securities	6,566,142
Investments held in custodial and non-custodial trusts	112,406
Pledges receivable—for restricted gifts, net	982,325
Investments held for endowments	<u>22,557,759</u>
Financial assets not available to be used within 1 year	<u>30,218,632</u>
Financial assets available to meet general expenditures within 1 year	<u>\$ 4,969,930</u>

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) PLEDGES RECEIVABLE

Pledges receivable represent commitments by donors to contribute to the Foundation. Pledges receivable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Program activities for the University	\$ <u>982,325</u>	<u>1,598,875</u>

The scheduled amounts to be received as of June 30 were as follows:

	<u>2019</u>	<u>2018</u>
Amounts due in:		
Less than 1 year	\$ 568,990	577,575
1-5 years	<u>413,335</u>	<u>1,021,300</u>
	<u>\$ 982,325</u>	<u>1,598,875</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 net assets with donor restrictions 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

(6) INVESTMENTS

The Foundation primarily uses an investment manager to manage the investments, which includes purchasing and sales. As of June 30, 2019 and 2018, the investment manager was the Teachers' Insurance and Annuity Association (TIAA).

As of both June 30, 2019 and 2018, 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

(6) INVESTMENTS, CONTINUED

Investment securities are presented at fair value. The Foundation had the following investments at June 30:

	<u>Cost</u>	<u>Fair Value</u>	Excess (Deficit) of Fair Value <u>Over Cost</u>
<u>2019</u>			
<u>Current:</u>			
U.S. government securities	\$ 1,002,168	1,007,197	5,029
Corporate bonds	161,150	161,683	533
Certificates of deposit	52,299	52,299	-
	<u>1,215,617</u>	<u>1,221,179</u>	<u>5,562</u>
<u>Non-current:</u>			
U.S. government securities	3,536,908	3,514,434	(22,474)
Corporate bonds	2,762,671	2,962,753	200,082
Mutual funds	23,445,898	25,119,064	1,673,166
Corporate stock—private	112,406	112,406	-
Certificates of deposit	88,955	88,955	-
	<u>\$ 31,162,455</u>	<u>33,018,791</u>	<u>1,856,336</u>
<u>2018</u>			
<u>Current:</u>			
Certificates of deposit	\$ 138,161	138,161	-
<u>Non-current:</u>			
U.S. government securities	3,251,412	3,180,492	(70,920)
Corporate bonds	2,737,824	2,681,422	(56,402)
Mutual funds	20,935,401	23,347,825	2,412,424
Corporate stock—private	109,313	109,313	-
	<u>\$ 27,172,111</u>	<u>29,457,213</u>	<u>2,285,102</u>

The Foundation recognized \$1,408,360 and \$717,043 during 2019 and 2018, 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.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) 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>2019</u>							
U.S. government securities	\$ 353,613	653,584	1,356,406	500,826	1,657,202	4,521,631	4,539,076
Corporate bonds	-	161,683	785,506	528,119	1,649,128	3,124,436	2,923,821
Mutual funds (no maturity)	-	-	-	-	-	25,119,064	23,445,898
Corporate stock—							
private (no maturity)	-	-	-	-	-	112,406	112,406
Certificates of deposit	52,299	-	88,955	-	-	141,254	141,254
	<u>\$ 405,912</u>	<u>815,267</u>	<u>2,230,867</u>	<u>1,028,945</u>	<u>3,306,330</u>	<u>33,018,791</u>	<u>31,162,455</u>
<u>2018</u>							
U.S. government securities	\$ -	-	947,144	1,251,918	981,430	3,180,492	3,251,412
Corporate bonds	-	-	755,015	814,761	1,111,646	2,681,422	2,737,824
Mutual funds (no maturity)	-	-	-	-	-	23,347,825	20,935,401
Corporate stock—							
private (no maturity)	-	-	-	-	-	109,313	109,313
Certificates of deposit	138,161	-	-	-	-	138,161	138,161
	<u>\$ 138,161</u>	<u>-</u>	<u>1,702,159</u>	<u>2,066,679</u>	<u>2,093,076</u>	<u>29,457,213</u>	<u>27,172,111</u>

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) 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>	2019		
		<u>Cost</u>	<u>Fair Value (FV)</u>	<u>FV as a % of Total FV</u>
AAA		\$ 4,597,994	4,686,413	14.193%
AA2		260,961	266,251	0.806%
A1		267,137	281,214	0.852%
A2		866,700	903,616	2.737%
A3		723,089	734,353	2.224%
BAA1*		232,105	237,494	0.719%
BAA2*		353,760	375,043	1.136%
BAA3		161,151	161,683	0.490%
Not rated:				
Mutual funds		23,445,898	25,119,064	76.075%
Corporate stock—private		112,406	112,406	0.340%
Certificates of deposit		141,254	141,254	0.428%
		<u>\$ 31,162,455</u>	<u>33,018,791</u>	<u>100.000%</u>

*Individual investments had a Standard & Poor's (S&P) rating of BBB or better at June 30, 2019.

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EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) INVESTMENTS, CONTINUED

Credit Risk, Continued

	<u>Moody's Rating</u>	2018		
		<u>Cost</u>	<u>Fair Value (FV)</u>	<u>FV as a % of Total FV</u>
AAA		\$ 3,181,097	3,112,077	10.565%
AA1		125,816	120,593	0.409%
AA2		344,952	343,286	1.165%
AA3		176,902	174,637	0.593%
A1		292,671	286,543	0.973%
A2		212,484	211,680	0.719%
A3		680,854	659,463	2.239%
BAA1*		257,430	252,646	0.858%
BAA2*		405,118	393,437	1.336%
BAA3		143,857	141,608	0.481%
Not rated:				
U.S. government securities:				
	Federal National Mortgage Association	168,055	165,944	0.563%
	Mutual funds	20,935,401	23,347,825	79.260%
	Corporate stock—private	109,313	109,313	0.371%
	Certificates of deposit	138,161	138,161	0.469%
		<u>\$ 27,172,111</u>	<u>29,457,213</u>	<u>100.000%</u>

*Individual investment had a Standard & Poor's (S&P) rating of BBB or better at June 30, 2018.

As of June 30, 2019 and 2018, the Foundation's investment balance included \$141,254 and \$138,161, 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 both June 30, 2019 and 2018, there was no concentration (uninsured amount).

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.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) 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>2019</u>	<u>2018</u>
Land:		
Lot, Arlington and Mississippi, Ada, Oklahoma	\$ 12,500	12,500
Lots 17 and 18 in Arrowhead Estates, Pittsburg County, Oklahoma	<u>-</u>	<u>5,000</u>
	<u>\$ 12,500</u>	<u>17,500</u>

The property has been recorded at its appraised value at the date the gift was given.

During the year ended June 30, 2019, the Foundation sold Lots 17 and 18 in Arrowhead Estates for \$5,600 and recognized a gain on sale of assets in the amount of \$600.

(8) 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, 2019 and 2018, the combined artwork had a total value of approximately \$330,000.

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EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) FURNITURE AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 33,347	33,347
Less accumulated depreciation	<u>(33,149)</u>	<u>(32,434)</u>
Net furniture and equipment	<u>\$ 198</u>	<u>913</u>

Depreciation expense was \$715 and \$1,117 for 2019 and 2018, respectively.

(10) 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, 2019 or 2018.

(11) NET ASSET COMPOSITION

Net assets with donor restrictions were as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Endowments subject to the Foundation's spending policy and appropriation	\$ 29,625,635	26,698,865
Specific purpose	3,886,363	3,740,568
Passage of time:		
Pledge receivable	<u>982,325</u>	<u>1,598,875</u>
	<u>\$ 34,494,323</u>	<u>32,038,308</u>

Net assets without donor restrictions were as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Undesignated	<u>\$ 1,069,776</u>	<u>1,038,116</u>

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(11) NET ASSET COMPOSITION, CONTINUED

Net assets released from net assets with donor restrictions during the years ended June 30 were as follows:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions:		
Programs for the University	\$ 1,616,611	1,645,684
Scholarships	645,288	561,880
Management and operating	261	1,306
Fundraising	4,600	2,150
	<u>\$ 2,266,760</u>	<u>2,211,020</u>

(12) 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 and 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, 2019 and 2018, the Foundation paid approximately \$8,000 and \$10,000, respectively, to OTRS.

The Foundation has not disclosed any amounts or items required by the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As the Foundation employees are considered employees of the University, all such disclosures will be made by the University.

(13) 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.

At June 30, 2019 and 2018, the Foundation had \$100,972 and \$21,406, respectively, on deposit at a local bank for which a Board member of the Foundation also serves as an officer.

See Independent Auditors' Report.

EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(14) **ENDOWMENTS**

The Foundation's endowments consisted of 321 and 307 individual donor-restricted funds as of June 30, 2019 and 2018, respectively, 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 is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies as net assets with donor restrictions (a time restriction in perpetuity) the original value of endowed gifts, and any subsequent gifts to the donor-restricted endowment. Investment earnings from the donor-restricted endowment are classified as net assets with donor restrictions (a purpose restriction) until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the donor-stipulated purpose within the standard of prudence prescribed by UPMIFA.

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.

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EAST CENTRAL UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(14) ENDOWMENTS, CONTINUED

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 net assets with donor restrictions at June 30, 2019 or 2018.

Endowment Net Asset Composition

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

	<u>Donor-Restricted in Perpetuity</u>	
	<u>2019</u>	<u>2018</u>
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	\$ 22,557,759	20,091,585
Accumulated investment earnings	<u>7,067,876</u>	<u>6,607,280</u>
Total, restated	<u>\$ 29,625,635</u>	<u>26,698,865</u>

Changes in Endowment Net Assets

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

	<u>Donor-Restricted in Perpetuity</u>	
	<u>2019</u>	<u>2018</u>
Net assets, beginning of year, restated	\$ 26,698,865	25,693,458
Contributions and other revenues	2,583,679	601,685
Investment earnings, net, restated	1,329,460	1,308,254
Amounts appropriated for expenditures	<u>(986,369)</u>	<u>(904,532)</u>
Net assets, end of year, restated	<u>\$ 29,625,635</u>	<u>26,698,865</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 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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$	1,128,018	1,578,281
Investments		33,018,791	29,457,213
Real estate held as investments		12,500	17,500

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.

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 and Cash Equivalents

The carrying amounts approximate fair value due to their short maturities.

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, corporate bonds, and certificates of deposit, for the most part, are obtained from independent pricing services utilizing Level 2 inputs. Fair value for the privately-owned corporate stock is determined by an annual independent appraisal using a combination of the market values and the investment value methods, which are considered Level 3 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>2019</u>				
U.S. government securities	\$ 4,521,631	-	4,521,631	-
Corporate bonds	3,124,436	-	3,124,436	-
Mutual funds	25,119,064	25,119,064	-	-
Corporate stock—private	112,406	-	-	112,406
Certificates of deposit	141,254	-	141,254	-
	<u>\$ 33,018,791</u>	<u>25,119,064</u>	<u>7,787,321</u>	<u>112,406</u>
<u>2018</u>				
U.S. government securities	\$ 3,180,492	-	3,180,492	-
Corporate bonds	2,681,422	-	2,681,422	-
Mutual funds	23,347,825	23,347,825	-	-
Corporate stock—private	109,313	-	-	109,313
Certificates of deposit	138,161	-	138,161	-
	<u>\$ 29,457,213</u>	<u>23,347,825</u>	<u>6,000,075</u>	<u>109,313</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 Recurring Basis, Continued

The following is a reconciliation of the beginning and ending balances of the fair value of assets measured on a recurring basis using unobservable inputs (Level 3) for the years ended June 30:

	<u>Privately Owned Corporate Stock</u>
<u>2019</u>	
Balance at beginning of year	\$ 109,313
Invested earnings	<u>3,093</u>
Balance at end of year	<u><u>\$ 112,406</u></u>
<u>2018</u>	
Balance at beginning of year	\$ -
Donation of stock	<u>109,313</u>
Balance at end of year	<u><u>\$ 109,313</u></u>

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.

The Foundation had real estate held as investments carried at fair value on a nonrecurring basis at both June 30, 2019 and 2018. Those investments had a fair market value of \$12,500 and \$17,500 as of June 30, 2019 and 2018, respectively.

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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 11, 2019.

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.

Finlay + Cook, PLLC

Shawnee, Oklahoma
September 11, 2019