

BELL & RHODES, P.C.

Certified Public Accountants

14220 Barbour Avenue

Oklahoma City, OK 73134

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Oklahoma Disciples Foundation

We have audited the accompanying financial statements of The Oklahoma Disciples Foundation (the "Organization"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Oklahoma Disciples Foundation as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Bell & Rhodes, P.C.

July 23, 2019

The Oklahoma Disciples Foundation
Statement of Financial Position
December 31, 2018

Assets

Cash and cash equivalents	\$ 755,502
Cash-restricted	8,000
Interest receivable	15,415
Property and equipment-net	782,698
Investments	17,779,868
Prepaid rent	9,496
Other assets	1,000
Total assets	<u>\$ 19,351,979</u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued liabilities	\$ 15,578
Gift annuities income interests	308,084
Gift annuities remainder interests	96,067
Charitable remainder trusts income interests	103,490
Assets held as trustee for others	<u>11,461,292</u>
Total liabilities	11,984,511

Net Assets

Without donor restrictions	3,154,798
With donor restrictions	4,212,670
Total net assets	<u>7,367,468</u>
Total liabilities and net assets	<u>\$ 19,351,979</u>

The Oklahoma Disciples Foundation
Statement of Activities and Changes in Net Assets
For the Year Ended
December 31, 2018

	<u>Without</u>	<u>With</u>	<u>Total</u>
	<u>Donor Restrictions</u>	<u>Donor Restrictions</u>	
Revenues			
Donations	\$ 44,587	\$ -	\$ 44,587
Investment income	-	(374,540)	(374,540)
Rental income-net of expenses	19,890	-	19,890
Other income	65,483	-	65,483
Support provided by expiring time & purpose restrictions	<u>438,663</u>	<u>(438,663)</u>	<u>-</u>
Total revenue	568,623	(813,203)	(244,580)
Expenses			
Program	329,643	-	329,643
General and administrative	133,933	-	133,933
Fundraising	<u>66,100</u>	<u>-</u>	<u>66,100</u>
Total expenses	<u>529,676</u>	<u>-</u>	<u>529,676</u>
Change in net assets	38,947	(813,203)	(774,256)
Net assets-beginning of year	<u>3,115,851</u>	<u>5,025,873</u>	<u>8,141,724</u>
Net assets-end of year	<u>\$ 3,154,798</u>	<u>\$ 4,212,670</u>	<u>\$ 7,367,468</u>

The Oklahoma Disciples Foundation
Statement of Cash Flows
For the Year Ended
December 31, 2018

Cash Flows from Operating Activities

Change in net assets	\$ (774,256)
Adjustments to reconcile decrease in net assets to net cash provided by (applied to) operating activities:	
Depreciation	10,783
Unrealized gains (losses)	741,403
Increase in interest receivable	(5,240)
Increase in prepaid rent	(9,496)
Decrease in accounts payable	(6)
Decrease in gift annuities income interest	(17,514)
Increase in gift annuities remainder interest	(24,283)
Increase in charitable remainder trusts income interest	(12,665)
Increase in assets held for others	6,516
Net cash applied to operating activities	(84,758)

Cash Flows from Investing Activities

Increase in long term investments	(198,345)
Net cash applied to investing activities	(198,345)
Net decrease in cash and cash equivalents	(283,103)
Cash and cash equivalents at beginning of year	1,038,605
Cash and cash equivalents at end of year	\$ 755,502

The Oklahoma Disciples Foundation
Statement of Functional Expenses
For the Year Ended
December 31, 2018

Description	Program	General & Administrative	Fundraising	Total
Payroll, payroll taxes, and benefits	\$ 155,546	\$ 108,665	\$ 52,539	\$ 316,750
Distributions to beneficiaries	118,376	-	-	118,376
Travel	4,392	1,520	1,459	7,371
Legal and professional	16,850	-	-	16,850
Office rental	1,987	3,384	1,987	7,358
Office supplies, equipment and software	4,318	7,355	4,318	15,991
Telephone	1,299	2,212	1,299	4,810
Conferences	84	-	-	84
Marketing program	16,709	-	-	16,709
Postage	103	225	145	473
Insurance	1,029	2,242	1,442	4,713
Dues and subscriptions	-	620	-	620
Board expenses	-	980	-	980
Training	2,284	-	-	2,284
Miscellaneous	3,755	1,769	-	5,524
Depreciation	2,911	4,961	2,911	10,783
	<u>\$ 329,643</u>	<u>\$ 133,933</u>	<u>\$ 66,100</u>	<u>\$ 529,676</u>

The Oklahoma Disciples Foundation
Notes to Financial Statements
December 31, 2018

A. Nature of Activities

The Oklahoma Disciples Foundation (the Foundation) receives gifts from individuals and organizations which are used to fund various charitable organizations and projects throughout the state of Oklahoma. The Foundation manages endowed funds that have been established for the benefit of other organizations. (Named Endowments) The Foundation also manages endowed funds, the proceeds of which are used to finance its operations. (Operating Endowments) It also administers several charitable remainder trusts and charitable gift annuities, some of which the Foundation is the remainder interest beneficiary. For most of these funds the remainder beneficiary is an organization other than the Foundation.

The Foundation is authorized to charge a fee for administering certain noncustodial named endowment funds. The annual fee is .50% of the fair market of the fund as of December 31. The .50% is prorated on a monthly basis for new funds received during the year. The Foundation suspended this fee in 2017 and has not reinstated it.

B. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Assets

The Foundation reports net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors.

Net Assets Without Donor Restrictions

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its organizing documents and its tax exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net Assets with Donor Restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other

The Oklahoma Disciples Foundation
Notes to Financial Statements
December 31, 2018

B. Significant Accounting Policies-continued

donor-imposed restrictions are perpetual in nature; the organization must continue to use the resources in accordance with the donor's instructions.

The organization's unspent contributions are included in this class if the donor limited their use, as are its donor-restricted endowment funds and its beneficial interest in charitable gift annuities held by the Christian Church Foundation.

Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statements of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

Cash and Cash Equivalents

Cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less, unless the investments are held for meeting restrictions of a capital or endowment nature.

Restricted Cash

The management company that handles the leasing operations of the 48th street property requires the Foundation to keep a minimum of \$8,000 in the operating account.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without restriction if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with restriction. When a restriction expires, net assets with restrictions are reclassified to net assets without restriction.

The Foundation uses the direct write off method to determine uncollectible unconditional promises receivable.

The Oklahoma Disciples Foundation
Notes to Financial Statements
December 31, 2018

B. Significant Accounting Policies-continued

Property and Equipment

The Organization capitalizes property and equipment over \$2,500, lesser amounts are expensed. Additions to property and equipment are capitalized at cost or donated value and are depreciated over their estimated useful lives ranging from five to forty years using the straight-line method.

Contributions

Contributions, including unconditional promises to give, are recognized when received. Contributions are recorded as net assets without restriction or net assets with restriction depending on the existence or nature of any donor restrictions. Contributions for which the restriction are met in the year received are treated as unrestricted.

Expense Recognition and Allocation

The cost of providing the Foundation's programs and other activities is summarized on a functional basis in the statement of activities and the statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the organization.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The organization generally does not conduct its fundraising activities in conjunction with its other activities. Joint costs such as salaries and employee benefits and occupancy expenses have been allocated between fundraising, management and program expenses based on the employee's estimated time spent in each area. Additionally, advertising costs are expensed as incurred.

Income Taxes

The Foundation is a non-profit corporation statutorily exempt from federal income taxation under Section 501(c) (3) of the Internal Revenue Code. The Foundation is classified as a publicly supported organization rather than as a private foundation. Because it is a religious organization, the Foundation is not required to file income tax returns.

The Oklahoma Disciples Foundation
Notes to Financial Statements
December 31, 2018

C. Fair Value Measurements

The Foundation reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Level 1. Quoted prices for identical assets or liabilities in active markets to which the organization has access at the measurement date.

Level 2. Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- a. quoted prices for similar assets or liabilities in active markets;
- b. quoted prices for identical or similar assets in markets that are not active;
- c. observable inputs other than quoted prices for the assets or liability (for example, interest rates and yield curves); and
- d. inputs derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3. Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

D. Investments

Investment income for the year ending December 31, 2018, is detailed below:

Description	Without Donor Restrictions	With Donor Retrictions	Total
Interest income	\$ -	\$ 2,214	\$ 2,214
Dividend income	-	137,634	137,634
Actuarial gain (loss)	-	42,746	42,746
Realized gains (losses)	-	213,228	213,228
Unrealized gains (losses)	-	(741,403)	(741,403)
Admin fees	-	(7,295)	(7,295)
Trustee fees	-	(21,664)	(21,664)
Total	<u>\$ -</u>	<u>\$ (374,540)</u>	<u>\$ (374,540)</u>

Investments consist of the following at December 31, 2018:

	Fair Value	Level 1	Level 2
Equities	\$ 11,408,766	\$ -	\$ 11,408,766
Fixed income	4,587,067	-	4,587,067
Alternative strategies	1,499,364	-	1,499,364
Real estate	278,586	-	278,586
Gift annuities remainder interests	6,085	-	6,085
Total long term investments	<u>\$ 17,779,868</u>	<u>\$ -</u>	<u>\$ 17,779,868</u>

The Oklahoma Disciples Foundation
Notes to Financial Statements
December 31, 2018

E. Restrictions on Net Assets

The Foundation is the remainder beneficiary for several Charitable Remainder Trusts and charitable gift annuities. During the life of the donor, these trusts and annuities make periodic distributions to designated beneficiaries based on either the donor's instructions or the Foundation's policy. The present value of the projected distributions as of December 31, 2018, is reflected as a liability on the Foundation's Statement of Financial Position. The difference between the fair value of the assets of the trusts and the present value of the income interest is included in Net Assets with Donor Restrictions..

The original corpus donated by many donors to the various operating endowment funds is considered permanently endowed. The earnings from these funds are available for the support of the general operations of the Foundation. The value of these endowed funds at December 31, 2018, is \$1,706,043.

The Gift Annuities managed by the Christian Church Foundation for which the Foundation is the beneficiary of the Remainder Interest are also considered permanently endowed. The value of these interests at December 31, 2018, is \$6,085.

At December 31, 2018, net assets with donor restrictions consisted of the following:

Unused portion of Named Endowment funding donation	\$ 623,456
Charitable Remainder Interests	354,643
Net realized and unrealized gain in value of the operating endowments	1,526,033
Operating endowments corpus which has been endowed by donors	1,706,043
Remainder interest of Gift Annuities held by Christian Church Foundatic	6,085
	<u>\$ 4,216,260</u>

F. Pension Plan

The Foundation has a defined contribution plan for its full-time employees that provides for annual contributions of 14% of employee's compensation. The Foundation's expense under this plan in 2018 was approximately \$32,800.

G. Property and Equipment

Property and equipment consists of the following:

Land and Building	\$ 795,868
Office and computer equipment	7,409
Less: accumulated depreciation	<u>(20,579)</u>
Net property and equipment	<u>\$ 782,698</u>

The Oklahoma Disciples Foundation
Notes to Financial Statements
December 31, 2018

H. Assets Held as Trustee for Others

The Foundation manages several endowed funds established to support the activities of various organizations in Oklahoma. The Foundation does not have variance power over these funds. Therefore, they are reflected on the Foundation's books as a liability, the amount of which is equal to the fair market value of the assets.

The Foundation also manages several Gift Annuities for which it is not the beneficiary of the Remainder Interest. The present value of the Income Interest and the Remainder Interest are both reflected on the Foundation's books as liabilities.

Because the Foundation has no beneficial interest in the earnings from these assets, the income and expense items related to these funds are not reflected in the Foundation's Statement of Activities. They are summarized below:

Description	Endowed Funds	Gift Annuities	Total
Donations	\$ 1,124,560	\$ -	\$ 1,124,560
Interest and dividend income	244,759	7,036	251,795
Change in value of investments	(919,525)	12,831	(906,694)
Miscellaneous income	5,152		5,152
Administrative and trustee fees	(53,733)	(1,958)	(55,691)
Actuarial gain (loss)	1,141		1,141
Distributions	(395,838)	(17,909)	(413,747)
Net change	<u>\$ 6,516</u>	<u>\$ -</u>	<u>\$ 6,516</u>

I. Endowed Funds

The 2018 activity in the Operating and Named Endowment Funds is shown below:

	Named Endowments	Operating Endowments	Total
Beginning market value	\$ 11,814,722	\$ 6,478,378	\$ 18,293,100
Contributions	1,124,560	-	1,124,560
Interest & dividend income	244,759	123,092	367,851
Change in value of investments	(919,525)	(448,492)	(1,368,017)
Other income (expense)	5,152	(19,741)	(14,589)
Management & Trustee Fees	(53,733)	(21,058)	(74,791)
Actuarial gain (loss)	1,141	(10,575)	(9,434)
Distributions	(395,838)	(354,950)	(750,788)
Ending market value	<u>\$ 11,821,238</u>	<u>\$ 5,746,654</u>	<u>\$ 17,567,892</u>

The Oklahoma Disciples Foundation
Notes to Financial Statements
December 31, 2018

I. Endowed Funds-continued

The Foundation's investment policy for the endowed funds is designed to achieve a total return (current yield plus capital appreciation) sufficient to preserve, and ideally, enhance, the purchasing power of the investments while at the same time providing a dependable source of income. It further states that the Foundation understands that risk is inherent in investing, and that some risk is necessary to produce long-term investment results sufficient to meet the investment objectives. However, investment risk can and should be moderated through proper asset allocation and portfolio diversification. The policy specifically prohibits investments in derivatives (excluding structured investments), commodities and futures contracts (excluding commodity ETFs), limited partnerships, venture capital investments and interest only, principal only and residual tranche collateralized mortgage obligations. It also prohibits short selling (other than when used within a fund allowing short and long positions) and margin transactions.

The asset allocation guidelines as specified in the investment policy are shown below:

Asset Class	Benchmark	Range	Target
Domestic Equities	Variable	14%-80%	45%
International Equities	MSCI EAFE (net)	2%-30%	20%
Alternative Strategies	(Variable)	0%-30%	0%
Fixed Income Securities	Merrill Lynch 1-10 A-AAA	15%-50%	32%
Money Market & Cash Equivalents	Barclays 90 Day T-Bills	0%-10%	3%

The Foundation's spending policy provides that the annual distributions shall be calculated as 4.5% of the Investment Pool's average quarter-ending share price for the trailing twelve calendar quarters, not to exceed 5.5% or fall below 3.5% of the Investment Pool's most recent year-end share price. The Board may, at its discretion, modify the above formula and impute traditional income equal to 3.0% of the year ending FMV of each particular trust. It further provides that the annual distribution shall be limited in that it cannot reduce the fair market value of the trust below the fair value of the original gift. The annual distribution shall be approved by the Foundation's board at the first meeting of the year and be distributed as soon as possible thereafter. It prohibits makeup distributions to reimburse for prior annual distribution deficiencies.

J. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31, 2018 are:

Cash and cash equivalents	\$ 755,502
Interest receivable	4,718
2019 annual distribution from operating endowments	287,097
Total financial assets	<u>\$ 1,047,317</u>

The Oklahoma Disciples Foundation
Notes to Financial Statements
December 31, 2018

K. Operating Leases

The Foundation leases its office space from regional office of the Christian Church (Disciples of Christ) under twelve month contracts. Total rent expense to the Foundation under this lease in 2018 was \$7,260. The lease has been renewed for 2019 at the same rate per square foot. However, ODF has leased additional space and the 2019 rent will be \$9,649. This amount was prepaid in December 2018.

In December 2017, the Foundation leased a copier for five years at a rate of \$291 per month.

The Foundation's minimum office and office equipment lease requirements for the next five years are shown below:

December 31, 2019	\$	13,141
December 31, 2020	\$	3,492
December 31, 2021	\$	3,492
December 31, 2022	\$	3,492

As noted above, the 2019 office lease payment was prepaid in December 2018, so the cash outlay for leases in 2019 will be \$3,492.

L. Evaluation of Subsequent Events

The Foundation has evaluated subsequent events through July 23, 2019, the date which the financial statements were available to be issued.