

# **BELL & RHODES, P.C.**

*Certified Public Accountants*

*14220 Barbour Avenue*

*Oklahoma City, OK 73013*

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
The Oklahoma Disciples Foundation

We have audited the accompanying financial statements of The Oklahoma Disciples Foundation (the "Organization"), (a nonprofit organization) which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2015, 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.



July 11, 2016

**The Oklahoma Disciples Foundation**  
**Statement of Financial Position**  
**December 31, 2015**

**Assets**

Cash and cash equivalents	\$ 945,655
Accrued management fees	72,236
Short-term investments	2,434,174
Interest receivable	8,504
Property and equipment-net	2,388
Long term investments	12,017,019
Royalty interests-undeveloped leases	1,000
Total assets	<u>\$ 15,480,976</u>

**Liabilities and Net Assets**

**Liabilities**

Accounts payable and accrued liabilities	\$ 4,564
Gift annuities income interests	372,251
Gift annuities remainder interests	86,474
Charitable remainder trusts income interests	121,220
Assets held as trustee for others	9,215,375
Total liabilities	<u>9,799,884</u>

**Net Assets**

Unrestricted	1,535,793
Temporarily restricted	2,424,829
Permanently restricted	1,720,470
Total net assets	<u>5,681,092</u>
Total liabilities and net assets	<u>\$ 15,480,976</u>

**The Oklahoma Disciples Foundation**  
**Statements of Activity and Changes in Net Assets**  
**For the Year Ended**  
**December 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues</b>				
Donations	\$ 752,509	\$ 1,000,000	\$ -	\$ 1,752,509
Management fee income	72,236	-	-	72,236
Investment income	(143,821)	-	-	(143,821)
Other income	31,861	-	-	31,861
Assets released from restrictions	132,172	(132,172)	-	-
Total revenue	<u>844,957</u>	<u>867,828</u>	<u>-</u>	<u>1,712,785</u>
<b>Expenses</b>				
Program	352,119	-	162,516	514,635
General and administrative	155,312	-	-	155,312
Fundraising	51,326	-	-	51,326
Total expenses	<u>558,757</u>	<u>-</u>	<u>162,516</u>	<u>721,273</u>
Change in net assets	286,200	867,828	(162,516)	991,512
Net assets-beginning of year	<u>1,249,593</u>	<u>1,557,001</u>	<u>1,882,986</u>	<u>4,689,580</u>
Net assets-end of year	<u>\$ 1,535,793</u>	<u>\$ 2,424,829</u>	<u>\$ 1,720,470</u>	<u>\$ 5,681,092</u>

**The Oklahoma Disciples Foundation**  
**Statement of Cash Flows**  
**For the Year Ended**  
**December 31, 2015**

**Cash Flows from Operating Activities**

Change in net assets	\$ 991,512
Adjustments to reconcile increase in net assets to net cash provided by (applied to) operating activities:	
Depreciation	881
Decrease in accrued management fees	33,928
Increase in interest receivable	(4,199)
Increase in accounts payable	227
Decrease in gift annuities income interest	(18,510)
Increase in gift annuities remainder interest	7,058
Decrease in charitable remainder trusts income interest	(53,962)
Increase in assets held for others	<u>116,902</u>
Net cash provided by operating activities	1,073,837

**Cash Flows from Investing Activities**

Increase in value of short term investments	(764,262)
Increase in value of long term investments	<u>(624,883)</u>
Net cash applied to investing activities	(1,389,145)
 Net increase in cash and cash equivalents	 (315,308)
Cash and cash equivalents at beginning of year	<u>1,260,963</u>
Cash and cash equivalents at end of year	<u>\$ 945,655</u>

**The Oklahoma Disciples Foundation**  
**Statement of Functional Expenses**  
**For the Year Ended**  
**December 31, 2015**

<u>Description</u>	<u>Program</u>	<u>General &amp; Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Payroll, payroll taxes, and benefits	\$ 126,690	\$ 120,554	\$ 34,581	\$ 281,825
Distributions to beneficiaries	350,394	-	-	350,394
Travel	2,870	1,565	7,789	12,224
Legal and professional	-	17,481	-	17,481
Office rental	1,928	3,284	1,928	7,140
Office supplies, equipment and software	2,829	4,819	2,829	10,477
Telephone	1,283	2,186	1,283	4,752
Conferences	1,528	-	-	1,528
Marketing program	21,959	-	-	21,959
Postage	80	173	111	364
Insurance	879	1,916	1,232	4,027
Dues and subscriptions	-	1,016	-	1,016
Training	1,951	-	-	1,951
Board expenses	-	464	-	464
Depreciation	238	406	237	881
Miscellaneous	2,006	1,448	1,336	4,790
	<u>\$ 514,635</u>	<u>\$ 155,312</u>	<u>\$ 51,326</u>	<u>\$ 721,273</u>

**The Oklahoma Disciples Foundation**  
**Notes to Financial Statements**  
**December 31, 2015**

**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, 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 charges a fee for administering certain non custodial named endowment funds. The annual fee is 1.0% of the fair market of the fund as of December 31, with a minimum annual fee of \$150. The 1.0% is prorated on a monthly basis for new funds received during the year.

**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 three classes that are based on the existence or absence of restrictions on use that are placed by its donors.

Unrestricted Net Assets

Unrestricted Net Assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

**The Oklahoma Disciples Foundation**  
**Notes to Financial Statements**  
**December 31, 2015**

**B. Significant Accounting Policies-continued**

Temporarily restricted net assets

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Foundation's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets.

Permanently Restricted Net Assets

Permanently restricted net assets are resources whose use by the Foundation is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of the organization's donor-restricted endowment funds that must be maintained in perpetuity are classified in this net asset class.

All revenues and net gains are reported as increases in unrestricted net assets in the statement of activities unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses and net losses other than losses on endowment investments reduce temporarily restricted net assets to the extent that net gains of the fund from prior years are unspent and classified there; remaining losses are classified as decreases in unrestricted net assets. If an endowment fund has no net gains from prior years, such as when a fund is newly established, net losses are classified as decreases in unrestricted net assets.

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.

**The Oklahoma Disciples Foundation**  
**Notes to Financial Statements**  
**December 31, 2015**

**B. Significant Accounting Policies-continued**

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 unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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

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 seven years using the straight-line method.

Contributions

Contributions, including unconditional promises to give are recognized when received. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted net assets 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.

**The Oklahoma Disciples Foundation**  
**Notes to Financial Statements**  
**December 31, 2015**

**B. Significant Accounting Policies-continued**

Expense Recognition and Allocation-continued

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.

**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.

**The Oklahoma Disciples Foundation**  
**Notes to Financial Statements**  
**December 31, 2015**

**D. Investments**

Investment income for the year ending December 31, 2015, is detailed below:

Description	Unrestricted	Temporarily Restricted	Total
Interest Income	\$ 4,912	\$ 1	\$ 4,913
Dividend Income	85,192	15,848	101,040
Partnership/Alternative Asset	-	16,186	16,186
Actuarial gain (loss)	-	53,127	53,127
Realized gains (losses)	-	29,938	29,938
Unrealized gains (losses)	(260,159)	(63,584)	(323,743)
Annuities expense	-	-	-
Admin fees	(4,164)	(3,518)	(7,682)
Trustee fees	(16,745)	(855)	(17,600)
Total	<u>\$ (190,964)</u>	<u>\$ 47,143</u>	<u>\$ (143,821)</u>

Investments consist of the following at December 31, 2015:

	Fair Value	Level 1	Level 2
Short term investments:			
U.S. treasury obligations	<u>\$ 2,434,174</u>	<u>\$ 2,434,174</u>	<u>\$ -</u>
Long term investments:			
U.S. mutual funds	\$ 5,558,083	\$ -	\$ 5,558,083
Foreign mutual funds	3,444,990	-	3,444,990
Concentrated and other equity	39,543	-	39,543
Hedge fund	1,975,342	-	1,975,342
Real estate funds	571,428	-	571,428
Commodity funds	135,956	-	135,956
Gift annuities remainder interests	15,677	-	15,677
Investment notes	276,000	276,000	-
Total long term investments	<u>\$ 12,017,019</u>	<u>\$ 276,000</u>	<u>\$ 11,741,019</u>

**E. Restrictions on Net Assets**

**Temporarily Restricted Net Assets**

As more fully explained under permanently restricted net assets, the net realized and unrealized gains and losses on investments is included in temporarily restricted net assets.

**The Oklahoma Disciples Foundation**  
**Notes to Financial Statements**  
**December 31, 2015**

**E. Restrictions on Net Assets-continued**

Temporarily Restricted Net Assets-continued

The Foundation is the remainder beneficiary for several Charitable Remainder Trusts. During the life of the donor, these trusts make annual 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, 2015, is reflected as a liability on the Foundation's Statement of Financial Condition. The difference between the fair value of the assets of the trusts and the present value of the income interest is included in temporarily restricted net assets.

The values of the items included in temporarily restricted net assets are shown below:

Net realized and unrealized gain in value	\$ 1,251,897
Unused portion of Named Endowment funding donation	867,828
Charitable Remainder Interests	<u>305,104</u>
	<u><u>\$ 2,424,829</u></u>

Permanently Restricted Net Assets

Permanently restricted net assets consist of the historical cost value of endowed funds given to the Foundation by several donors. Realized and unrealized gains on investments are treated as temporarily restricted net assets, as only the original corpus is required to be kept intact. 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, 2015 is \$1,692,507.

Permanently restricted net assets also include the value of Gift Annuities managed by the Christian Church Foundation for which the Foundation is the beneficiary of the Remainder Interest. The value of these interests at December 31, 2015 is \$27,963.

**F. Pension Plan**

The Foundation has a defined contribution plan for its full time employees that provides for annual contributions of 14% of employees compensation. The Foundation's expense under this plan in 2015 was approximately \$26,000.

**The Oklahoma Disciples Foundation**  
**Notes to Financial Statements**  
**December 31, 2015**

**G. Property and Equipment**

Property and equipment consists of the following:

Office and computer equipment	\$ 10,877
Less: accumulated depreciation	(8,489)
Net property and equipment	<u>\$ 2,388</u>

**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 Charitable Remainder Trusts 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 Activity. They are summarized below:

Description	Endowed Funds	Charitable Remainder Trusts	Total
Donations	\$ 848,993	\$ -	\$ 848,993
Interest and dividend income	164,420	6,824	171,244
Change in value of investments	(417,047)	30,669	(386,378)
Other income	32,568	-	32,568
Administrative and trustee fees	(34,717)	(2,037)	(36,754)
Distributions	(360,664)	(35,456)	(396,120)
Net change	<u>\$ 233,553</u>	<u>\$ -</u>	<u>\$ 233,553</u>

**The Oklahoma Disciples Foundation**  
**Notes to Financial Statements**  
**December 31, 2015**

**I. Endowed Funds**

The 2015 activity in the Operating and Named Endowment Funds is shown below:

	Named Endowments	Operating Endowments	Total
Beginning market value	\$ 9,501,649	\$ 3,617,808	\$ 13,119,457
Contributions	686,477	1,737,906	2,424,383
Transfers from Charitable			
Remainder Trusts	162,516	-	162,516
Interest & dividend income	204,961	94,050	299,011
Change in value of investments	(432,835)	(223,939)	(656,774)
Management & Trustee Fees	(152,814)	(15,394)	(168,208)
Distributions	(388,997)	(292,688)	(681,685)
Ending market value	<u>\$ 9,580,957</u>	<u>\$ 4,917,743</u>	<u>\$ 14,498,700</u>

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 ETSs), 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:

<b>Asset Class</b>	<b>Benchmark</b>	<b>Range</b>	<b>Target</b>
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 Oklahoma Disciples Foundation**  
**Notes to Financial Statements**  
**December 31, 2015**

**I. Endowed Funds-continued**

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. 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. Operating Leases**

The Foundation leases its office space from regional office of the Oklahoma Disciples of Christ under twelve month contracts. Total rent expense to the Foundation under this lease in 2015 was \$7,140. The lease has been renewed for 2016 for \$7,260.

**K. Evaluation of Subsequent Events**

The Foundation has evaluated subsequent events through July 11, 2016, the date which the financial statements were available to be issued.