

BELL & RHODES, P.C.

Certified Public Accountants

14220 Barbour Avenue

Oklahoma City, OK 73013

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"), (a nonprofit organization) which comprise the statement of financial position as of December 31, 2016, 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, 2016, 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 18, 2016

The Oklahoma Disciples Foundation
Statement of Financial Position
December 31, 2016

Assets

Cash and cash equivalents	\$ 952,896
Accrued management fees	39,335
Short-term investments	3,093,829
Interest receivable	12,459
Property and equipment-net	1,506
Long term investments	13,905,077
Royalty interests-undeveloped leases	1,000
Total assets	<u>\$ 18,006,102</u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued liabilities	\$ 5,001
Gift annuities income interests	353,121
Gift annuities remainder interests	114,278
Charitable remainder trusts income interests	107,018
Assets held as trustee for others	9,921,278
Total liabilities	<u>10,500,696</u>

Net Assets

Unrestricted	3,413,395
Temporarily restricted	2,385,428
Permanently restricted	1,706,583
Total net assets	<u>7,505,406</u>
Total liabilities and net assets	<u>\$ 18,006,102</u>

The Oklahoma Disciples Foundation
Statements of Activity and Changes in Net Assets
For the Year Ended
December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues				
Donations	\$ 1,841,979	\$ -	\$ -	\$ 1,841,979
Management fee income	39,335	-	-	39,335
Investment income	92,501	362,207	-	454,708
Other income	31,566	-	(1,601)	29,965
Assets released from restrictions	107,890	(107,890)	-	-
Total revenue	<u>2,113,271</u>	<u>254,317</u>	<u>(1,601)</u>	<u>2,365,987</u>
Expenses				
Program	333,251	-	-	333,251
General and administrative	169,714	-	-	169,714
Fundraising	38,708	-	-	38,708
Total expenses	<u>541,673</u>	<u>-</u>	<u>-</u>	<u>541,673</u>
Change in net assets	1,571,598	254,317	(1,601)	1,824,314
Net assets-beginning of year	<u>1,841,797</u>	<u>2,131,111</u>	<u>1,708,184</u>	<u>5,681,092</u>
Net assets-end of year	<u>\$ 3,413,395</u>	<u>\$ 2,385,428</u>	<u>\$ 1,706,583</u>	<u>\$ 7,505,406</u>

The Oklahoma Disciples Foundation
Statement of Cash Flows
For the Year Ended
December 31, 2016

Cash Flows from Operating Activities

Change in net assets	\$ 1,824,314
Adjustments to reconcile increase in net assets to net cash provided by (applied to) operating activities:	
Depreciation	882
Decrease in accrued management fees	32,901
Increase in interest receivable	(3,955)
Increase in accounts payable	437
Decrease in gift annuities income interest	(19,130)
Decrease in gift annuities remainder interest	(6,942)
Increase in charitable remainder trusts income interest	20,544
Increase in assets held for others	<u>705,903</u>
Net cash provided by operating activities	2,554,954

Cash Flows from Investing Activities

Increase in short term investments	(659,655)
Increase in long term investments	<u>(1,888,058)</u>
Net cash applied to investing activities	(2,547,713)
 Net increase in cash and cash equivalents	 7,241
Cash and cash equivalents at beginning of year	<u>945,655</u>
Cash and cash equivalents at end of year	<u>\$ 952,896</u>

The Oklahoma Disciples Foundation
Statement of Functional Expenses
For the Year Ended
December 31, 2016

<u>Description</u>	<u>Program</u>	<u>General & Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Payroll, payroll taxes, and benefits	\$ 104,638	\$ 129,503	\$ 28,913	\$ 263,054
Distributions to beneficiaries	196,021	-	-	196,021
Travel	2,924	1,193	955	5,072
Legal and professional	-	22,338	-	22,338
Office rental	1,960	3,340	1,960	7,260
Office supplies, equipment and software	3,430	5,843	3,430	12,703
Telephone	1,204	2,051	1,204	4,459
Conferences	1,910	-	-	1,910
Marketing program	17,708	-	-	17,708
Postage	115	249	160	524
Insurance	933	2,032	1,305	4,270
Dues and subscriptions	-	1,009	-	1,009
Board expenses	-	1,226	-	1,226
Depreciation	238	406	238	882
Miscellaneous	2,170	524	543	3,237
	<u>\$ 333,251</u>	<u>\$ 169,714</u>	<u>\$ 38,708</u>	<u>\$ 541,673</u>

See Accompanying Notes

The Oklahoma Disciples Foundation
Notes to Financial Statements
December 31, 2016

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 .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.

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, 2016

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, 2016

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, 2016

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, 2016

D. Investments

Investment income for the year ending December 31, 2016, is detailed below:

Description	Unrestricted	Temporarily Restricted	Total
Interest Income	\$ 4,793	\$ 6	\$ 4,799
Dividend Income	112,106	16,012	128,118
Partnership/Alternative Asset	-	-	-
Actuarial gain (loss)	-	3,945	3,945
Realized gains (losses)	-	39,031	39,031
Unrealized gains (losses)	-	307,273	307,273
Admin fees	(2,468)	(3,331)	(5,799)
Trustee fees	(21,930)	(729)	(22,659)
Total	<u>\$ 92,501</u>	<u>\$ 362,207</u>	<u>\$ 454,708</u>

Investments consist of the following at December 31, 2016:

	Fair Value	Level 1	Level 2
Short term investments:			
U.S. treasury obligations	<u>\$ 3,093,829</u>	<u>\$ 3,093,829</u>	<u>\$ -</u>
Long term investments:			
U.S. mutual funds	\$ 6,235,059	\$ -	\$ 6,235,059
Foreign mutual funds	3,693,747	-	3,693,747
Concentrated and other equity	29,933	-	29,933
Hedge fund	2,423,969	-	2,423,969
Real estate funds	937,662	-	937,662
Commodity funds	294,632	-	294,632
Gift annuities remainder interests	14,075	-	14,075
Investment notes	276,000	276,000	-
Total long term investments	<u>\$ 13,905,077</u>	<u>\$ 276,000</u>	<u>\$ 13,629,077</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, 2016

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, 2016, 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	\$ 1,320,385
Unused portion of Named Endowment funding donation	723,548
Charitable Remainder Interests	<u>341,495</u>
	<u><u>\$ 2,385,428</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, 2016, 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, 2016, is \$14,076.

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 2016 was approximately \$28,000.

The Oklahoma Disciples Foundation
Notes to Financial Statements
December 31, 2016

G. Property and Equipment

Property and equipment consists of the following:

Office and computer equipment	\$ 10,877
Less: accumulated depreciation	(9,371)
Net property and equipment	<u>\$ 1,506</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	\$ 573,713	\$ -	\$ 573,713
Interest and dividend income	168,671	6,433	175,104
Change in value of investments	421,441	8,671	430,112
Administrative and trustee fees	(33,335)	(1,760)	(35,095)
Distributions	(342,194)	(13,344)	(355,538)
Net change	<u>\$ 788,296</u>	<u>\$ -</u>	<u>\$ 788,296</u>

The Oklahoma Disciples Foundation
Notes to Financial Statements
December 31, 2016

I. Endowed Funds

The 2016 activity in the Operating and Named Endowment Funds is shown below:

	Named Endowments	Operating Endowments	Total
Beginning market value	\$ 9,580,957	\$ 4,917,743	\$ 14,498,700
Contributions	573,713	1,831,119	2,404,832
Interest & dividend income	174,859	110,712	285,571
Change in value of investments	408,298	277,904	686,202
Miscellaneous income	312	8,282	8,594
Management & Trustee Fees	(106,795)	(20,708)	(127,503)
Distributions	(354,747)	(390,021)	(744,768)
Ending market value	<u>\$ 10,276,597</u>	<u>\$ 6,735,031</u>	<u>\$ 17,011,628</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 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 Oklahoma Disciples Foundation
Notes to Financial Statements
December 31, 2016

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. 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. 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 2016 was \$7,260. The lease has been renewed for 2017 at the same rate.

K. Evaluation of Subsequent Events

The Foundation has evaluated subsequent events through July 18, 2016, the date which the financial statements were available to be issued.