

Oklahoma State University Foundation

Financial Report
June 30, 2016

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RSM US LLP

Independent Auditor's Report

To the Board of Trustees
Oklahoma State University Foundation
Stillwater, Oklahoma

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Oklahoma State University Foundation (the Foundation), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended and the related notes to the consolidated financial statements (collectively, 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 consolidated 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 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 auditor's 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 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 Oklahoma State University Foundation as of June 30, 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.

Report on Summarized Comparative Information

We have previously audited Oklahoma State University Foundation's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our reported dated October 23, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Oklahoma City, Oklahoma
October 14, 2016

Oklahoma State University Foundation

Consolidated Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	\$ 4,932,098	\$ 3,518,008
Investments (Note 2)	890,943,734	875,672,114
Contributions receivable, net (Note 3)	58,663,556	60,110,999
Interest and other receivables (Note 3)	2,387,857	3,468,571
Other property investments (Note 9)	1,042,130	1,286,393
Property and equipment, net (Note 7)	10,725,087	10,899,667
Beneficial interests in trusts (Note 10)	12,101,817	12,790,684
Other assets	3,579,572	3,435,271
	<u>3,579,572</u>	<u>3,435,271</u>
Total assets	<u>\$ 984,375,851</u>	<u>\$ 971,181,707</u>
Liabilities and Net Assets		
Liabilities:		
OSU support payable	\$ 8,076,535	\$ 2,455,991
Accounts payable and accrued liabilities	2,108,008	2,235,997
Funds held on behalf of OSU	5,883,130	5,212,975
Funds held on behalf of Cowboy Athletics	21,556,706	23,315,392
Funds held on behalf of OSU Alumni Association	14,622,165	15,619,682
Obligations under split-interest agreements (Note 8)	8,937,585	9,041,943
Unearned revenue	28,500	28,500
	<u>28,500</u>	<u>28,500</u>
Total liabilities	<u>61,212,629</u>	<u>57,910,480</u>
Net Assets (Note 4):		
Unrestricted	306,495,150	302,781,959
Temporarily restricted	171,489,879	164,970,733
Permanently restricted	445,178,193	445,518,535
	<u>445,178,193</u>	<u>445,518,535</u>
Total net assets	<u>923,163,222</u>	<u>913,271,227</u>
	<u>923,163,222</u>	<u>913,271,227</u>
Total liabilities and net assets	<u>\$ 984,375,851</u>	<u>\$ 971,181,707</u>

See notes to consolidated financial statements.

Oklahoma State University Foundation

Consolidated Statements of Activities

Year Ended June 30, 2016 (With Comparative Totals for the Year Ended June 30, 2015)

	2016				2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Revenues and support:					
Contributions:					
Cash	\$ 33,144,549	\$ 27,782,549	\$ 7,635,946	\$ 68,563,044	\$ 46,792,002
Securities	1,461,295	2,435,796	1,382,481	5,279,572	10,846,400
Land, goods, services and other	2,257,165	136,542	430,000	2,823,707	2,398,367
Promises to give	-	22,608,284	4,826,706	27,434,990	34,510,114
Cowboy Athletics	-	-	-	-	1,000,000
Total contributions	36,863,009	52,963,171	14,275,133	104,101,313	95,546,883
Provision for uncollectible pledges	-	(4,141,736)	(521,832)	(4,663,568)	(5,081,826)
Interest and dividends, net	567,524	700,837	-	1,268,361	5,546,392
Net investment gains (losses)	13,921,921	(5,694,693)	(14,774,169)	(6,546,941)	18,469,433
Contract support services	3,574,751	-	-	3,574,751	3,502,662
Net gains (losses) on disposals of property and equipment and other property investments	(186,687)	65,295	-	(121,392)	(220,599)
Management fee income	9,057,064	(8,522,068)	-	534,996	154,020
Change in value of split-interest agreements	(451,499)	(1,187,115)	488,504	(1,150,110)	1,214,694
Other income	1,607,779	(13,667)	(8,049)	1,586,063	1,398,468
Reclassifications—donor directed	2,262,201	(3,611,977)	1,349,776	-	-
Net assets released from restrictions	25,188,606	(24,038,901)	(1,149,705)	-	-
Total revenues and support	92,404,669	6,519,146	(340,342)	98,583,473	120,530,127
Expenses:					
Program services:					
Intercollegiate athletics	14,837,710	-	-	14,837,710	6,826,215
Cowboy Athletics	6,529,592	-	-	6,529,592	12,637,387
Library	545,802	-	-	545,802	420,075
Research	2,325,634	-	-	2,325,634	1,154,163
General University support	13,082,017	-	-	13,082,017	15,964,323
Awards and scholarships	17,482,976	-	-	17,482,976	14,220,288
Endowed faculty and lectureship programs	7,261,105	-	-	7,261,105	4,213,078
Facilities and equipment	6,069,621	-	-	6,069,621	2,513,467
Management and general	5,577,307	-	-	5,577,307	5,200,514
Fundraising	14,972,214	-	-	14,972,214	15,030,251
Charitable legacy distributions	7,500	-	-	7,500	33,058
Total expenses	88,691,478	-	-	88,691,478	78,212,819
Change in net assets	3,713,191	6,519,146	(340,342)	9,891,995	42,317,308
Net assets at beginning of year	302,781,959	164,970,733	445,518,535	913,271,227	870,953,919
Net assets at end of year	\$ 306,495,150	\$ 171,489,879	\$ 445,178,193	\$ 923,163,222	\$ 913,271,227

See notes to consolidated financial statements.

Oklahoma State University Foundation

Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Increase in net assets	\$ 9,891,995	\$ 42,317,308
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Net investment losses (gains)	6,546,941	(18,469,433)
Change in value of split-interest agreements	1,150,110	(1,214,694)
Distributions from beneficial interest in trusts	48,219	-
Losses on sales of property and equipment and other property investments	121,392	220,599
Contributions restricted for long-term investment, cash	(12,360,212)	(14,993,162)
Contributions restricted for long-term investment, securities	(1,382,481)	(1,881,796)
Contributions restricted for long-term investment, property and equipment	(430,000)	(146,000)
Noncash distributions	3,573,486	2,379,063
Noncash contributions	(8,040,189)	(13,845,758)
Proceeds from sales of donated financial assets	3,647,460	9,073,402
Depreciation expense	473,326	449,388
Amortization of discount on contributions receivable	(1,023,142)	2,482,429
Provision for uncollectible pledges	4,663,568	5,081,826
Changes in operating assets and liabilities:		
Contributions receivable, net	(4,557,850)	(16,699,858)
Interest and other receivables	1,080,714	(1,119,633)
Other assets	(144,301)	(141,304)
OSU support payable	5,620,544	(138,004)
Accounts payable and accrued liabilities	(127,989)	(102,210)
Funds held on behalf of OSU	670,155	58,874
Funds held on behalf of Cowboy Athletics	(1,758,686)	(215,917)
Funds held on behalf of OSU Alumni Association	(997,517)	685,829
Obligations under split-interest agreements	(254,402)	(65,638)
Unearned revenue	-	(500,000)
Net cash provided by (used in) operating activities	6,411,141	(6,784,689)
Cash flows from investing activities:		
Purchase of investments	(220,752,068)	(190,457,937)
Proceeds from sales and maturities of investments	202,571,067	178,714,197
Proceeds from sale of other property investments	645,404	1,000
Purchases of other property investments	(429,009)	-
Proceeds from sale of property and equipment	411,895	700
Purchases of property and equipment	(1,617,033)	(1,313,446)
Net cash used in investing activities	(19,169,744)	(13,055,486)
Cash flows from financing activities:		
Contributions restricted for long-term investment	14,172,693	17,020,958
Net cash provided by financing activities	14,172,693	17,020,958
Net increase (decrease) in cash and cash equivalents	1,414,090	(2,819,217)
Cash and cash equivalents at beginning of year	3,518,008	6,337,225
Cash and cash equivalents at end of year	\$ 4,932,098	\$ 3,518,008

(Continued)

Oklahoma State University Foundation

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2016 and 2015

	2016	2015
Supplemental disclosures of cash flow information:		
Noncash distributions to funds held on behalf of Cowboy Athletics	<u>\$ -</u>	<u>\$ 559,849</u>
Noncash distributions from funds held on behalf of Cowboy Athletics	<u>\$ -</u>	<u>\$ 1,000,000</u>
Noncash transfers of property and equipment to OSU	<u>\$ 1,149,705</u>	<u>\$ -</u>
Noncash transfers of other property investments to OSU	<u>\$ 2,423,781</u>	<u>\$ 1,819,214</u>
Donated securities	<u>\$ 4,893,003</u>	<u>\$ 10,519,659</u>
Donation of beneficial interest	<u>\$ 386,568</u>	<u>\$ 326,741</u>
Donation of property and equipment	<u>\$ 430,000</u>	<u>\$ 146,000</u>
Donated other property investments	<u>\$ 2,330,618</u>	<u>\$ 1,853,358</u>
Donated services provided for the benefit of OSU	<u>\$ 63,090</u>	<u>\$ 399,009</u>
Beneficial interest in trusts transferred from contributions receivable	<u>\$ 2,364,867</u>	<u>\$ -</u>

See notes to consolidated financial statements.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization: Oklahoma State University Foundation (the Foundation) is a not-for-profit corporation formed in 1961 to promote the educational, benevolent, and scientific purposes of Oklahoma State University (the University or OSU). The Foundation, through the contributions it receives, provides funds for University projects and programs which cannot be funded by appropriations or grants from state and federal governments, or for which existing appropriations are inadequate.

Reporting entity: The consolidated financial statements include the assets, liabilities, net assets, and changes in net assets, and cash flows of the Foundation. The Foundation has approximately 5,100 active component funds, one affiliated organization, and two single member limited liability companies. The affiliated organization is the Foundation for Engineering at Oklahoma State University, Inc., which was incorporated on October 10, 2008, and is included with the Foundation in the accompanying consolidated financial statements because the Foundation has an economic interest in the organization and controls the affiliated organization's Board of Trustees. Further, distributions made by the affiliated organization exclusively benefit the charitable purposes of the Foundation. The Foundation is also the sole member of the Oklahoma State University Student Foundation, LLC and the OSU Foundation Real Estate, LLC and as such the accompanying consolidated financial statements include all assets, liabilities, revenues, and expenses of the LLC's. All material inter-organization transactions of the affiliated organization and the LLC's have been eliminated. The Foundation, its affiliate and the LLC's are collectively referred to as the Foundation throughout these consolidated financial statements.

Operations: The Foundation acts primarily as a fundraising organization, soliciting, receiving, managing, and disbursing contributions on behalf of the University. Distribution of amounts held in the funds of the Foundation is subject to the approval of the Foundation and the availability of monies. Accordingly, the accompanying consolidated financial statements generally reflect expenditures which have been submitted to and approved by the Foundation as of the financial reporting date.

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 of America (U.S. GAAP) for nongovernmental entities. The Foundation's financial statements have been prepared on the accrual basis of accounting and to ensure the observance of limitations and restrictions placed on the use of available resources, the Foundation maintains its accounts in accordance with the principles and practices of fund accounting. All inter-fund activities have been eliminated in the accompanying consolidated financial statements.

Contribution revenue recognition: 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. Transfers of assets under conditional promises, which are received by the Foundation prior to fulfilling these conditions, are recorded as a liability (i.e., unearned revenue) until the conditions are substantially met. Contributions of assets other than cash are recorded at their estimated fair value on the gift date.

Contributions to be received after one year are recorded at the present value of their estimated future cash flows using a discount rate which is commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in the same net asset class and fund as the original contribution. An allowance is made for uncollectable contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Contributions are reported as increases in the appropriate net asset category. Expenses are reported as decreases in unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Gifts of property and equipment are recorded as unrestricted support unless explicit donor stipulations specify how the assets must be used or how long the assets must be held, in which case the gift is recorded as restricted support. Expirations of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Contributions received from donors with general use restrictions for the University as a whole, or for specific colleges or departments within the University, are reflected as unrestricted to the extent that the University, colleges or departments have expended sufficient dollars which meet these general use restrictions. Contributions which are received and whose restrictions are met in the same period are recognized as unrestricted contributions.

Net asset classifications: The Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) was enacted by the State of Oklahoma effective November 1, 2007 (OK UPMIFA). The board of trustees of the Foundation has interpreted OK UPMIFA to require the Foundation to exercise prudence in determining whether to spend from or accumulate to donor-restricted endowment funds with a view toward the permanent nature and long-term continuing viability of such funds.

Net assets, revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets: Unrestricted net assets are net assets for which there are no donor-imposed restrictions that the assets be used for a specific purpose or held for a certain period of time.

Temporarily restricted net assets: Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets: Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Foundation. 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 purposes.

Income and gains on investments are reported as increases in permanently restricted net assets if the terms of the gift that gave rise to the investment require such amounts be added to the permanent endowment. Income and gains are reported as increases in temporarily restricted net assets if the terms of the gift or applicable law impose restrictions on the use of the income and as increases in unrestricted net assets in all other cases. Generally, losses on investments of endowments reduce temporarily restricted net assets to the extent donor-imposed temporary restrictions on the net appreciation of investments have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets. Subsequent investment gains are applied first to unrestricted net assets to the extent that losses have previously been recognized, and then to temporarily restricted net assets.

Cash and cash equivalents: The Foundation considers highly liquid investments with a maturity of three months or less when purchased, excluding cash and cash equivalent funds held in the Foundation's investment portfolio, to be cash equivalents.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Investments: Investments consist of both marketable and nonmarketable investment assets as follows:

Marketable securities: Marketable securities include fixed-income investments (cash and short-term funds, global and domestic bond mutual funds), balanced mutual funds, bond investments (government and corporate obligations), commodities, equity investments (common and preferred stock, equity mutual funds), and real assets. Marketable securities are reported at fair value in the accompanying consolidated financial statements. Realized gains and losses on sales of marketable securities are computed on the first-in, first-out basis.

Nonmarketable securities: Nonmarketable securities consist of equity, fixed-income, and real asset limited partnership and similar investment company interests, and closely held stock. Nonmarketable securities are classified according to the nature of the underlying investment and include hedged and long-only equity strategies through the use of private equity funds, hedge funds, common funds, and closely held stock. The Foundation elected to report the fair value of its nonmarketable securities, excluding closely held stock, using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by Foundation management. Nonmarketable securities, not valued using the practical expedient, are stated at fair value or the best estimate of fair value as determined by the investment manager, appraisal and/or the Foundation's management. Realized gains and losses on sales of nonmarketable securities are computed on the average cost basis.

The majority of investments are combined in a common investment pool and invested on the basis of a total return policy to provide income and improve opportunities to realize appreciation in investment values.

Other property investments: Other property investments consist 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 consolidated 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 the determination. No property investment impairments were recorded in 2016 or 2015.

Property and equipment: Property and equipment are stated at cost at the time of acquisition or at fair value at the date of donation. The Foundation capitalizes all property and equipment purchased and/or donated with an original basis of \$10,000 or more. Depreciation is based on the estimated useful life of the asset using the straight-line method. The Foundation records impairments of its property and equipment when it becomes probable that the carrying value of the assets will not be fully recovered over the estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances at the time of the determination. No property or equipment impairments were recorded in 2016 or 2015.

Beneficial interests in trusts: Beneficial interests in trusts represent the amounts held under irrevocable perpetual and charitable remainder trust agreements between donors and third-party trustees and are carried at fair value.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Funds held on behalf of OSU: The liability represents assets held on behalf of the University for which the Foundation acts as a custodian. The assets held are invested in the Foundation's investment pool and investment income, distributions, and other revenue and expenses of these funds increase and/or decrease the carrying value of the asset and funds held on behalf of OSU liability. The related assets are distributable to the University upon request.

Funds held on behalf of Cowboy Athletics: The Foundation is the custodian for assets held in conjunction with an agency agreement between the Foundation and Cowboy Athletics, Inc. (Cowboy Athletics). Distributions and expenses of these funds decrease the carrying value of the asset and funds held on behalf of Cowboy Athletics. The assets are available for distribution to Cowboy Athletics upon request.

Funds held on behalf of OSU Alumni Association: The liability represents assets held on behalf of the Oklahoma State University Alumni Association for which the Foundation acts as a custodian. The assets held are invested in the Foundation's investment pool and investment income, distributions, and other revenue and expenses of these funds increase and/or decrease the carrying value of the asset and funds held on behalf of OSU Alumni Association liability. The related assets are distributable to the Alumni Association upon request.

Obligations under split-interest agreements: Split-interest agreements for which the Foundation serves as trustee include irrevocable charitable remainder trusts and charitable gift annuities (Note 8). Obligations under split-interest agreements are the amounts due to the designated beneficiaries of the charitable trust and/or gift annuity and are equal to the present value of the expected future payments to be made.

Charitable legacy funds: Charitable legacy funds are donor-advised funds held by the Foundation. Irrevocable charitable contributions are received by the Foundation and are invested in a separate pool. The Foundation is responsible for investing and distributing the funds to public charities nominated by the donor, with the stipulation that a minimum of 50 percent of the principal and earnings go toward the benefit of the University. The Foundation retains variance power with respect to contributions received and reports the contributions as unrestricted.

The Foundation distributed assets totaling approximately \$12,000 and \$1,000 to University accounts and distributed assets totaling approximately \$8,000 and \$33,000 to other not-for-profit organizations from these donor-advised funds during 2016 and 2015, respectively. At June 30, 2016 and 2015, the Foundation held charitable legacy fund assets totaling approximately \$1,125,000 and \$1,351,000, respectively, which are included in investments in the consolidated statements of financial position.

Management fee income: The Foundation assesses management fees on pooled investment funds, trust funds, and estate gifts. Such revenues are reflected as increases in the Foundation's operating fund (unrestricted) and decreases in the other funds managed by the Foundation (unrestricted and/or temporarily restricted) in the consolidated statements of activities. The Foundation also assesses management and other fees on funds that it manages for others.

Functional classification of expenses: Expenses are reported as decreases in unrestricted net assets and are classified on a functional basis in the consolidated statements of activities. Program services expenses are based on the purpose of actual expenditures for the benefit of the University, management and general, and fundraising costs are allocated based on evaluation of the related activities, and charitable legacy distributions are based on actual distributions to other not-for-profit organizations in conjunction with certain donor-advised funds.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

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

Net assets released from restrictions: Net assets released from restrictions are asset reclassifications that result from fulfillment of the purposes for which the net assets were restricted and/or restrictions which expired with the passage of time.

Donor-directed: Donor-directed reclassifications are net asset reclassifications that occur when a donor withdraws or court action removes previously imposed restrictions, when a donor imposes restrictions on otherwise unrestricted net assets, when a donor changes or modifies their existing restriction, and/or when an existing donor restriction requires certain amounts to be reclassified.

Concentrations of credit: The Foundation has 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 risks related to such balances are minimal.

The Foundation received contributions from three donors totaling approximately \$29,653,000 in 2016 and contributions from six donors totaling approximately \$24,885,000 in 2015. These contributions represent approximately 28 percent and 26 percent of total contribution revenue in 2016 and 2015, respectively. Net contributions receivable totaling approximately \$19,613,000 and \$22,186,000 are due from seven donors at June 30, 2016 and 2015, respectively. These receivables represent approximately 35 percent and 37 percent of total net contributions receivable at June 30, 2016 and 2015, respectively.

Income taxes: The Foundation and its affiliated organization are generally exempt from federal income tax under section 501(a) as an organization described in section 501(c)(3) of the Internal Revenue Code. Generally, all revenue earned outside the purpose for which the Foundation is created is taxable as earned income.

Accounting for uncertain tax positions: The ASC provides guidance on the accounting for uncertainty in income taxes. This guidance requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. Management evaluates the Foundation's tax positions and has concluded that the Foundation has taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance. 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 ending on or before June 30, 2012.

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

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Significant estimates: Estimates that are particularly susceptible to significant change include the valuation of marketable and nonmarketable investments, beneficial interests in trusts, and contributions receivable. The Foundation's investment portfolio and beneficial interests 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 consolidated 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 estimate of contributions receivable and the related allowance for uncollectible amounts is based on consideration of all relevant available information and an analysis of the collectability of individual contributions, which arise primarily from pledges as well as trusts and estates, at the financial statement date.

Fair value measurements: The Foundation follows ASC Topic 820, Fair Value Measurements, which provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy under Topic 820 are described as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from, or corroborated by, observable market data by correlation to other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. All transfers between fair value hierarchy levels are recognized by the Foundation at the beginning of each reporting period.

Financial assets and liabilities carried at fair value on a recurring basis include investments, beneficial interests in trusts, and funds held on behalf of OSU, OSU Alumni Association and Cowboy Athletics. The Foundation has no assets or liabilities carried at fair value on a nonrecurring basis in 2016 or 2015.

New accounting pronouncements: On May 1, 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a consensus of the FASB Emerging Issues Task Force)*. The amendments in this update remove the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU No. 2015-07 is effective for the Foundation's year ending June 30, 2018 and should be applied retrospectively to all periods presented. Earlier application is permitted and the Foundation elected to early implement ASU No. 2015-07 for the year ended June 30, 2016. Implementation of ASU No. 2015-07 resulted in changes to the Foundation's fair value measurement disclosures (see Note 6) for its investments carried at net assets value.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncement: On August 26, 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this update provide cash flow statement classification guidance for the following eight categories: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. ASU No. 2016-15 is effective for the Foundation's year ending June 30, 2020. Earlier application is permitted. The Foundation is currently evaluating the effect implementation of ASU No. 2016-15 will have on its financial statements.

On August 18, 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this update change presentation and disclosure requirements for not-for profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These amendments include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU No. 2016-14 is effective for the Foundation's year ending June 30, 2019. Earlier application is permitted. The Foundation is currently evaluating the effect implementation of ASU No. 2016-14 will have on its financial statements.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The amendments in this update affect any entity that enters into a lease transaction. The primary change from this guidance is that the lessee should recognize the assets and liabilities that arise from all leases over 12 months in length. If the lease is 12 months or less in length, a lessee is permitted to make an accounting policy election by class of the underlying asset not to recognize lease assets and liabilities. If this election is made, the lessee should recognize the lease expense on a straight line basis over the lease term. ASU No. 2016-02 is effective for the Foundation's year ending June 30, 2021. Earlier application is permitted. The Foundation is currently evaluating the effect implementation of ASU No. 2016-02 will have on its financial statements.

On January 5, 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, the long-awaited final standard on the recognition and measurement of financial instruments. The ASU applies to all entities that hold financial assets or owe financial liabilities and represent the finalization of just one component of the FASB's broader financial instruments project. ASU No. 2016-01 is effective for the Foundation's year ending June 30, 2020. Earlier application is permitted. The Foundation is currently evaluating the effect implementation of ASU No. 2016-01 will have on its financial statements.

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14 which defers the effective date of ASU No. 2014-09 one year making it effective for the Foundation's year ending June 30, 2020. Early adoption, subsequent to the Foundation's year ending June 30, 2017, is permitted. The Foundation is currently evaluating the effect implementation of ASU No. 2014-09 will have on its financial statements.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Prior-year information: The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended June 30, 2015, from which the summarized information was derived. Certain reclassifications of prior-year comparative totals have been made in order to conform to the current-year presentation.

Subsequent events: Management has evaluated subsequent events through October 14, 2016, the date the consolidated financial statements were available to be issued. See Note 15 for a discussion of subsequent event matters.

Note 2. Investments

Marketable and nonmarketable investments at fair value consist of the following:

	June 30	
	2016	2015
Marketable securities:		
Fixed-income:		
Cash and short-term funds	\$ 68,940,962	\$ 52,745,891
Global fixed-income mutual funds	24,661,267	25,894,388
U.S. fixed-income mutual funds	509,522	521,179
Equity:		
Long-only—domestic	65,418,905	71,729,843
Long-only—emerging markets	5,106,649	660,093
Long-only—global	33,098,914	35,803,398
Long-only—international	46,581,841	55,748,996
Real assets—public	36,468,885	28,700,405
Total marketable securities	<u>280,786,945</u>	<u>271,804,193</u>
Nonmarketable securities:		
Equity:		
Hedged equity—credit related	33,687,586	35,474,127
Hedged equity—fund of funds	15,747,794	17,060,329
Hedged equity—multistrategy funds	306,315	296,355
Hedged equity—long/short funds	128,438,975	161,353,596
Hedged equity—diversifiers	56,245,216	61,120,933
Hedged equity—event driven	21,612,489	19,778,651
Long-only—domestic equities	25,666,563	33,401,403
Long-only—emerging markets	18,950,495	18,930,966
Long-only—international	63,809,484	48,734,992
Private equity	90,531,212	76,102,776
Fixed-income—global fixed-income fund	15,184,243	15,474,550
Real assets:		
Energy-related hedge funds	13,735,627	16,043,477
Private	16,388,700	20,558,836
Closely held stock	109,852,090	79,536,930
Total nonmarketable securities	<u>610,156,789</u>	<u>603,867,921</u>
Total investments	<u>\$ 890,943,734</u>	<u>\$ 875,672,114</u>

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 2. Investments (Continued)

Investment income consists of the following:

	Years Ended June 30	
	2016	2015
Interest and dividends	\$ 4,078,897	\$ 7,544,724
Investment fees	(2,810,536)	(1,998,332)
Interest and dividends, net	<u>\$ 1,268,361</u>	<u>\$ 5,546,392</u>
Net realized gains (losses) on investments carried at fair value	\$ (5,051,987)	\$ 37,032,656
Net unrealized gains (losses) on investments carried at fair value	897,063	(18,423,061)
Change in fair value of perpetual trusts	(2,392,017)	(140,162)
Net investment gains	<u>\$ (6,546,941)</u>	<u>\$ 18,469,433</u>

Note 3. Contributions and Other Receivables

Unconditional contributions receivable, including amounts due under pledge agreements, are expected to be collected as follows:

	June 30	
	2016	2015
Contributions receivable in:		
Less than one year	\$ 25,680,825	\$ 23,186,540
One year to five years	41,303,076	48,045,429
Over five years	10,012,481	8,455,697
	<u>76,996,382</u>	<u>79,687,666</u>
Less:		
Unamortized discount (2.25%–8.37%)	11,926,944	12,950,086
Allowance for uncollectible amounts	6,405,882	6,626,581
	<u>\$ 58,663,556</u>	<u>\$ 60,110,999</u>

The Foundation has raised substantial conditional and unconditional contributions which, at least in part, are for the purpose of qualifying for the Pickens Legacy Scholarship match program. The matching funds are to be provided through the estate of a significant donor and as such are considered conditional; however, the funds raised to be matched by this conditional gift which are the result of cash payments and/or unconditional promises to give have been recognized as contribution revenue net of a discount to present value in the period in which the contribution was made and/or unconditional promise was received.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 3. Contributions and Other Receivables (Continued)

Unconditional contributions receivable net of discount and allowance that are temporarily restricted and permanently restricted are described in the table below:

	June 30	
	2016	2015
Temporarily restricted:		
Intercollegiate athletics	\$ 21,746,809	\$ 18,783,882
General University support	3,591,394	6,442,128
Awards and scholarships	2,662,209	3,050,557
Facilities and equipment	25,039,823	26,242,446
Other	249,405	482,323
	<u>53,289,640</u>	<u>55,001,336</u>
Permanently restricted:		
Intercollegiate athletics	308,607	303,177
General University support	1,123,079	232,853
Awards and scholarships	3,499,225	4,187,430
Endowed faculty and lectureship programs	396,785	364,012
Other	46,220	22,191
	<u>5,373,916</u>	<u>5,109,663</u>
Total	<u>\$ 58,663,556</u>	<u>\$ 60,110,999</u>

No amounts have been recognized in the consolidated financial statements for conditional promises to give because the conditions on which they depend have not been substantially met. Conditional promises to give total approximately \$378,000,000 and \$351,000,000 at June 30, 2016 and 2015, respectively, and substantially all conditional promises to give are the result of the Foundation being named as the beneficiary in an estate plan or a valid will for which the Foundation has sufficient information to estimate the conditional receivable. The Foundation is also aware of additional naming in estate plans or wills; however, the Foundation does not currently have sufficient information to estimate such amounts.

Interest and other receivables are expected to be fully collected within one year and consist of the following:

	June 30	
	2016	2015
Interest and other receivables:		
Receivable from OSU	\$ 1,876,027	\$ 1,742,817
Other receivables	511,830	1,725,754
	<u>\$ 2,387,857</u>	<u>\$ 3,468,571</u>

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note.4 Net Assets

Unrestricted net assets consist of the following:

	June 30	
	2016	2015
Designated for the University: (a)		
Intercollegiate athletics	\$ 83,093,347	\$ 78,515,243
Library	1,405,857	1,466,677
Research	2,414,346	2,146,488
General University support	156,240,627	118,985,913
Awards and scholarships	41,026,023	43,118,733
Endowed faculty and lectureship positions	(198,951)	5,254,344
Facilities and equipment	13,607,397	20,609,468
Charitable legacy fund	1,125,323	1,350,693
	<u>298,713,969</u>	<u>271,447,559</u>
Designated for the Foundation: (b)		
Invested in property and equipment (e)	10,725,087	10,899,667
Gain (loss) on short-term investment funds (d)	(13,702,192)	1,548,969
OSU foundation reserves and general support (c)	10,758,286	18,885,764
	<u>7,781,181</u>	<u>31,334,400</u>
Total unrestricted net assets	<u>\$ 306,495,150</u>	<u>\$ 302,781,959</u>

- (a) Deficit balances in funds designated for the University result when the fair value of assets held in donor-restricted endowment funds falls below the level that the donor or OK UPMIFA requires the Foundation to retain as a fund of perpetual duration and such losses cumulatively exceed unrestricted funds available for the designated purpose.
- (b) Unrestricted net assets designated for the Foundation are amounts held for use in operating the Foundation.
- (c) Foundation reserves and general support represent quasi-endowments established for the purpose of providing a revenue stream for Foundation operations.
- (d) Gains (losses) on short-term investment funds represents the difference between the June 30, 2016 and June 30, 2015, fair market value of short-term investment funds compared to the total amount available for expenditure by the University.
- (e) Unrestricted net assets invested in property and equipment represent the Foundation's building, furniture and equipment.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 4. Net Assets (Continued)

Temporarily and permanently restricted net assets are restricted for the following:

	June 30	
	2016	2015
Temporarily restricted:		
Intercollegiate athletics	\$ 29,811,010	\$ 28,608,629
Library	1,177,955	1,649,260
Research	191,550	677,271
General University support	41,596,517	16,991,653
Awards and scholarships	27,167,039	46,453,404
Endowed faculty and lectureship programs	17,688,437	27,628,041
Facilities and equipment	53,857,371	42,962,475
	<u>\$ 171,489,879</u>	<u>\$ 164,970,733</u>
Permanently restricted:		
Intercollegiate athletics	\$ 10,542,835	\$ 9,892,507
Library	4,850,139	4,660,716
Research	4,207,478	3,428,082
General University support	22,239,825	21,694,360
Awards and scholarships	196,641,380	189,443,669
Endowed faculty and lectureship programs	201,589,728	211,388,002
Facilities and equipment	4,778,521	4,867,193
OSU Foundation reserves and general support	328,287	144,006
	<u>\$ 445,178,193</u>	<u>\$ 445,518,535</u>

In 2016, the Foundation petitioned and received an entry of judgment whereby the Foundation would transfer property held in a permanently restricted trust to the University. The judgment also states that the University may not sell the land, except to the Foundation, prior to April 5, 2096 and the Foundation has an option, at any time, to purchase the property from the University for \$1. As the Foundation has no intent to exercise its option to repurchase the land, the Foundation recognized a reclassification from permanently restricted net assets to unrestricted net assets, and a decrease in property and equipment and increase in program expense of \$1,149,705 in 2016 related to this distribution.

Note 5. Endowment Disclosures

The Foundation's endowment consists of approximately 3,100 funds at June 30, 2016 and approximately 3,000 funds at June 30, 2015, established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the trustees to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 5. Endowment Disclosures (Continued)

Interpretation of relevant law: The trustees of the Foundation have chosen to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are expended by the Foundation in a manner consistent with the standard of prudence prescribed by OK UPMIFA. In accordance with OK UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment net asset composition by type of fund as of June 30, 2016, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (9,588,857)	\$ 41,329,598	\$ 427,630,691	\$ 459,371,432
Board-designated endowment funds	86,174,320	-	-	86,174,320
Total endowment funds	<u>\$ 76,585,463</u>	<u>\$ 41,329,598</u>	<u>\$ 427,630,691</u>	<u>\$ 545,545,752</u>

Endowment net asset composition by type of fund as of June 30, 2015, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (535,264)	\$ 73,965,383	\$ 424,505,100	\$ 497,935,219
Board-designated endowment funds	83,424,204	-	-	83,424,204
Total endowment funds	<u>\$ 82,888,940</u>	<u>\$ 73,965,383</u>	<u>\$ 424,505,100</u>	<u>\$ 581,359,423</u>

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 5. Endowment Disclosures (Continued)

Changes in endowment net assets for the year ended June 30, 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 82,888,940	\$ 73,965,383	\$ 424,505,100	\$ 581,359,423
Investment return:				
Interest and dividends	400,125	2,355,204	-	2,755,329
Investment fees	(47,394)	(1,670,306)	-	(1,717,700)
Net realized and unrealized losses	(12,038,480)	(5,649,791)	(12,382,152)	(30,070,423)
Total investment return	(11,685,749)	(4,964,893)	(12,382,152)	(29,032,794)
Donor-restricted additions:				
Current-year endowment contributions	-	-	8,954,628	8,954,628
Collection of current- and prior-year pledges	-	-	3,943,554	3,943,554
Transfers of prior-year contributions	-	-	2,332,427	2,332,427
Total donor-restricted additions	-	-	15,230,609	15,230,609
Management fee	(1,627,761)	(8,520,758)	-	(10,148,519)
Appropriation of endowment assets for expenditure	(2,424,510)	(19,837,134)	-	(22,261,644)
Reinvestment of amounts appropriated	-	1,010,340	-	1,010,340
Reclassification—donor directed	(224,032)	(30,806)	277,134	22,296
Transfers to Board-designated and donor-restricted endowment funds	9,658,575	(292,534)	-	9,366,041
Endowment net assets, end of year	\$ 76,585,463	\$ 41,329,598	\$ 427,630,691	\$ 545,545,752

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 5. Endowment Disclosures (Continued)

Changes in endowment net assets for the year ended June 30, 2015, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 79,951,933	\$ 82,822,458	\$ 416,646,519	\$ 579,420,910
Investment return:				
Interest and dividends	717,514	4,944,000	-	5,661,514
Investment fees	(242,607)	(1,262,108)	-	(1,504,715)
Net realized and unrealized gains	2,592,142	13,884,152	(12,566,665)	3,909,629
Total investment return	3,067,049	17,566,044	(12,566,665)	8,066,428
Donor-restricted additions:				
Current-year endowment contributions	-	-	11,410,469	11,410,469
Collection of current- and prior-year pledges	-	-	2,674,990	2,674,990
Transfers of prior-year contributions	-	-	2,969,895	2,969,895
Total donor-restricted additions	-	-	17,055,354	17,055,354
Management fee	(1,668,901)	(8,680,518)	-	(10,349,419)
Appropriation of endowment assets for expenditure	(2,238,514)	(18,395,503)	-	(20,634,017)
Reinvestment of amounts appropriated	1,206	1,992,124	-	1,993,330
Reclassification—donor directed	-	(1,215,742)	3,369,892	2,154,150
Transfers to Board-designated and donor-restricted endowment funds	3,776,167	(123,480)	-	3,652,687
Endowment net assets, end of year	\$ 82,888,940	\$ 73,965,383	\$ 424,505,100	\$ 581,359,423

In addition to permanently restricted endowment funds, the Foundation also has interests in perpetual trusts and charitable remainder trusts which are managed by third parties, charitable trusts which are managed by the Foundation, and permanently restricted contributions receivable. These assets are not a part of the Foundation's endowment and therefore are not included in the endowment disclosures.

Funds with deficiencies: 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 OK UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets and totaled \$9,588,857 and \$535,264 at June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation from certain funds as deemed prudent.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 5. Endowment Disclosures (Continued)

Return objectives and risk parameters: The Foundation has adopted investment and spending policies for endowment assets to provide for growth and a predictable level of funding to the University to enable it to maintain, improve and expand its facilities and programs. It is recognized that these objectives require a long term investment horizon. Investment risk is measured in terms of the total portfolio and is managed to ensure that the asset allocation does not expose the portfolio to unacceptable levels of risk but at the same time achieves the best possible returns over time. The asset allocation policies reflect and are consistent with the investment objectives and risk tolerances expressed through the Foundation's investment policy. These policies, developed after examining the historical relationships of risk and return among asset classes, are designed to provide the highest probability of meeting or exceeding the return objectives at the lowest level of risk. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To achieve its objectives, the Foundation seeks to utilize strategic and tactical asset allocation decisions, selection of top tier investment managers, and active performance monitoring and evaluation by Foundation management, outside consultants, and the Investment Committee of the Board of Trustees. The Foundation utilizes a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on growth investments to achieve its long-term objectives within prudent risk constraints. This translates to a target asset allocation of 80 percent equity/growth-based, 10 percent real assets/inflation, and 10 percent fixed-income/deflation/liquidity.

Spending policy and how the investment objectives relate to spending policy: The Foundation's spending policy is the mechanism in which calculated amounts from endowments participating in the pooled investment fund are made available to the University. The Foundation's spending policy allows for the use of both realized income and appreciation as components of the spending policy distribution. The spending policy is the prior year's spending amount adjusted by an inflationary factor (calculated as the percentage change in the Consumer Price Index (CPI) from August of the prior fiscal year to August of the current year plus 5 percent of new gifts and reinvested funds, unless the endowment account's market value is less than its historic gift value. In 2016 and 2015, if an endowment account's market value at September 30 of the prior fiscal year is less than the historic gift value but at least 80 percent of the historic gift value, the endowment fund's spending policy is 3 percent of the account's market value; however, if the account's market value at September 30 of the prior fiscal year is less than 80 percent of the historic gift value, spending is not allowed from the endowment account. The spending policy distribution was \$22,261,644 and \$20,634,017 for the years ended June 30, 2016 and 2015, respectively.

Note 6. Fair Value Measurements

The Foundation's Investment Committee, appointed by the Board of Trustees, is responsible for the overall management of the Foundation's investments, including the hiring and termination of investment managers, investment consultant(s), custodian banks and securities lending agents. The Foundation's Investment Office is responsible for sourcing, evaluating, and selecting investments for recommendation to the Foundation's Investment Committee. They are also responsible for the day-to-day operations involving due diligence and other testing procedures in regards to reviewing the reasonableness of fair value for all investments, which includes evaluating the accuracy and adequacy of information provided by custodians, brokers and managers. The valuation process for investments is the responsibility of the Foundation's Investment Office and all other fair value measurements are the responsibility of the Foundation's accounting department. Fair value measurements for beneficial interests in trusts and funds held on behalf of OSU, Cowboy Athletics, and OSU Alumni Association are prepared by the Foundation's accounting department and approved by the Board of Trustees during their review and approval of the Foundation's periodic internal financial statements.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

The methods and assumptions used to estimate the fair value of assets and liabilities in the financial statements, including a description of the methodologies used for the classifications within the fair value hierarchy, are as follows:

Cash and cash equivalents: The asset's carrying amount approximates fair value due to its short maturity.

Investments: All of the Foundation's marketable securities are valued by nationally recognized third-party pricing services, except for certain commodities which are valued by the fund/account manager. The Foundation gives highest priority to quoted prices in active markets for identical assets accessed at the measurement date. An active market for the asset is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis and the Foundation classifies all such assets as Level 1. The Foundation gives a Level 2 priority to valuation prices where the valuation process involves inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly, using the market approach. Level 2 inputs under the market approach include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there is not sufficient activity, and/or where price quotations vary substantially either over time or among market makers, or in which little information is released publicly. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

Nonmarketable securities, except for closely held stock, are carried at fair value which is based on the net asset value per share (NAV) as provided by the fund manager and/or adjusted by the Foundation. The Foundation uses management agreements, analyst notes, audited financial statements, and underlying investment holdings to evaluate the fund manager's valuation methodology (i.e., in determining whether the fund manager follows ASC 820) and considers various other factors including contributions and withdrawals to the fund and monitoring unaudited interim reporting to determine if any adjustment to the NAV is necessary. Closely held stock is carried at fair value which is based on independent appraisal or Foundation management. Closely held stock is categorized as Level 3 in the fair value hierarchy.

Contributions receivable: The asset is carried at cost net of a discount to present value using a rate which is commensurate with the risks involved on the gift date and an allowance for uncollectible accounts at the financial reporting date. Risks associated with individual gifts are assessed annually through the Foundation's review of the status of each gift. Fair value is the price a market participant would pay to acquire the right to receive the cash flows inherent in the promise to pay and due to inclusion of a discount to net present value and allowance for uncollectible accounts the carrying value approximates fair value.

Interest and other receivables: The asset is carried at cost, which approximates fair value due to the short maturity of such amounts.

Other property investments: The asset's carrying amount is based on the fair value of the assets at the time of donation or purchase (i.e., cost basis) and reduced for impairments to their net realizable value based on facts and circumstances at the time of the determination. Property investments are not held for long-term investment purposes. Due to the nature of the underlying assets and overall immateriality at the time of donation, management believes the carrying amount approximates fair value.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

Beneficial interests in trusts: The beneficial interest is carried at fair value, which is based on the present value of the expected future cash inflows from the trusts. The fair value of the underlying trust assets is based on quoted market prices when available or the best estimate of fair value as determined by the third-party trustee. The Foundation's valuation technique considers the fair value of the assets held in the trust and applies a discount rate to convert such amounts to a single present value amount when appropriate. The discount rate used by the Foundation reflects current market conditions including the inherent risk in the underlying assets and the risk of nonperformance by the trustee. Due to the significant unobservable inputs required to estimate the expected future cash receipts from the trust agreements under the income approach, the Foundation's beneficial interest is classified as Level 3 in the hierarchy.

Other assets: The primary other asset is cash surrender values on life insurance policies for which the Foundation is the beneficiary, and as such, the carrying value approximates fair value.

OSU support payable and accounts payable and accrued liabilities: The carrying amount of the liabilities approximates fair value due to the short maturity of such amounts.

Funds held on behalf of OSU, OSU Alumni Association and Cowboy Athletics: The liabilities are carried at fair value as determined using the income approach (expected future cash outflows). Fair value is based on the fair value of the cash and investment assets held by the Foundation for the benefit of OSU, OSU Alumni Association and Cowboy Athletics. The specific assets held have been classified within the hierarchy for investments (as discussed above) or are cash and cash equivalents. The related and associated liability is classified as Level 3 in the hierarchy as there is no market for a similar liability and principal inputs (i.e., fair value of assets in the portfolio and management's allocation for shares in the pool) are unobservable and significant to the overall fair value measurement.

Obligations under split-interest agreements: The liabilities' fair value is determined by discounting the future cash flows at rates that could currently be negotiated by the Foundation for borrowings of similar amounts. The carrying value approximates the liabilities' fair value.

Unearned revenue: The liability is carried at cost, which approximates fair value due to the short maturity of those amounts.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

Assets and liabilities measured at fair value on a recurring basis are classified within the fair value hierarchy at June 30, 2016, as follows:

	Total	Level 1	Level 2	Level 3
Assets:				
Marketable securities:				
Fixed-income:				
Cash and short-term funds	\$ 68,940,962	\$ 68,940,962	\$ -	\$ -
Global fixed-income mutual funds	24,661,267	24,661,267	-	-
U.S. fixed-income mutual funds	509,522	509,522	-	-
Equities:				
Long-only—domestic	65,418,905	65,418,905	-	-
Long-only—emerging markets	5,106,649	5,106,649	-	-
Long-only—global	33,098,914	33,098,914	-	-
Long-only—international	46,581,841	46,581,841	-	-
Real assets—public	36,468,885	36,468,885	-	-
Total marketable securities	280,786,945	280,786,945	-	-
Nonmarketable securities:				
Nonmarketable securities at net asset value (NAV) (a)	500,304,699			
Closely held stock	109,852,090	-	-	109,852,090
Total nonmarketable securities	610,156,789	-	-	109,852,090
Total investments	890,943,734	280,786,945	-	109,852,090
Beneficial interests in trusts	12,101,817	-	-	12,101,817
Total assets	\$ 903,045,550	\$ 280,786,945	\$ -	\$ 121,953,907
Liabilities:				
Funds held on behalf of OSU	\$ 5,883,130	\$ -	\$ -	\$ 5,883,130
Funds held on behalf of Cowboy Athletics	21,556,706	-	-	21,556,706
Funds held on behalf of OSU Alumni Association	14,622,165	-	-	14,622,165
Total liabilities	\$ 42,062,001	\$ -	\$ -	\$ 42,062,001

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

Assets and liabilities measured at fair value on a recurring basis are classified within the fair value hierarchy at June 30, 2015, as follows:

	Total	Level 1	Level 2	Level 3
Assets:				
Marketable securities:				
Fixed-income:				
Cash and short-term funds	\$ 52,745,891	\$ 52,745,891	\$ -	\$ -
Global fixed-income mutual funds	25,894,388	25,894,388	-	-
U.S. fixed-income mutual funds	521,179	521,179	-	-
Equities:				
Long-only—domestic	71,729,843	71,729,843	-	-
Long-only—emerging markets	660,093	660,093	-	-
Long-only—global	35,803,398	35,803,398	-	-
Long-only—international	55,748,996	55,748,996	-	-
Real assets—public	28,700,405	28,700,405	-	-
Total marketable securities	271,804,193	271,804,193	-	-
Nonmarketable securities:				
Nonmarketable securities at net asset value (NAV) (a)	524,330,991			
Closely held stock	79,536,930	-	-	79,536,930
Total nonmarketable securities	603,867,921	-	-	79,536,930
Total investments	875,672,114	271,804,193	-	79,536,930
Beneficial interests in trusts	12,790,684	-	-	12,790,684
Total assets	\$ 888,462,798	\$ 271,804,193	\$ -	\$ 92,327,614
Liabilities:				
Funds held on behalf of OSU	\$ 5,212,975	\$ -	\$ -	\$ 5,212,975
Funds held on behalf of Cowboy Athletics	23,315,392	-	-	23,315,392
Funds held on behalf of OSU Alumni Association	15,619,682	-	-	15,619,682
Total liabilities	\$ 44,148,049	\$ -	\$ -	\$ 44,148,049

(a) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

The following tables summarize the changes in the fair value of the Foundation's Level 3 assets and liabilities.

	Assets			Liabilities	
	Closely Held Stock	Beneficial Interests in Trusts	Funds Held on Behalf of OSU	Funds Held on Behalf of Cowboy Athletics	Funds Held on Behalf of OSU Alumni Association
Balance at July 1, 2014	\$ 70,855,130	\$ 12,533,640	\$ 5,154,101	\$ 23,971,460	\$ 14,933,853
Net realized and unrealized gains included in earnings	9,272,400	(140,162)	105,731	(215,918)	587,414
Distributions	-	-	(81,857)	(1,000,000)	(600,000)
Contributions	409,450	326,741	35,000	559,850	698,415
Change in value of split-interests	-	70,465	-	-	-
Sales of investments	(1,000,050)	-	-	-	-
Balance at June 30, 2015	79,536,930	12,790,684	5,212,975	23,315,392	15,619,682
Net realized and unrealized gains included in earnings	31,615,896	(2,392,017)	(233,722)	(1,758,686)	(530,683)
Distributions	-	(48,219)	(92,123)	-	(1,096,975)
Contributions	-	386,568	996,000	-	630,141
Transfer from contributions receivables	-	2,364,867	-	-	-
Change in value of split-interests	-	(1,000,066)	-	-	-
Sales of investments	(1,300,736)	-	-	-	-
Balance at June 30, 2016	\$ 109,852,090	\$ 12,101,817	\$ 5,883,130	\$ 21,556,706	\$ 14,622,165

The summary of changes in fair value of Level 3 assets has been prepared to reflect the activity in the same categories as those provided in the consolidated statements of activities, except that none of the activity related to the funds held on behalf of OSU, OSU Alumni Association or Cowboy Athletics is reported in the consolidated statements of activities. All transactions in custodial accounts increase and/or decrease assets and liabilities simultaneously and do not impact the consolidated statements of activities and/or net assets.

The Foundation's Level 3 gains and losses included in the change in net assets are summarized as follows:

	Years Ended June 30	
	2016	2015
Total gains for the period included in change in net assets	\$ 29,223,879	\$ 9,132,238
Change in unrealized gains for the period included in change in net assets for assets held at the end of the reporting period	\$ 29,223,879	\$ 9,132,238

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

In the ordinary course of business, the Foundation is subject to risk from adverse fluctuations in foreign exchange, interest rates, and commodity prices. The Foundation manages these risks through use of derivative financial instruments, primarily futures and forward contracts. These contracts are short term commitments (approximately 8 weeks) to buy or sell at a future date a commodity or currency at a contracted price and may be settled in cash or through delivery. Counterparties to these contracts are major financial institutions. The Foundation is exposed to credit loss in the event of nonperformance by these counterparties. At June 30, 2016 and 2015, the fair value of the derivative assets is \$3,329,350 and \$16,300, respectively, and the fair value of the derivative liabilities is \$698,283 and \$1,252,238, respectively. The net value of \$2,631,067 and \$(1,235,938) is included in investments in the statement of financial position (and fixed-income cash and short-term funds in the investment disclosures) and realized and unrealized gains (losses) are recorded as net investment gains (losses) in the statement of activities.

The Foundation's investments in certain entities that calculate net asset value (NAV) per share and for which there is not a readily determinable fair value are summarized by category as follows:

	Fair Value, June 30		Unfunded Commitments, June 30		Redemption Frequency (If Currently Eligible)	Redemption Notice Period	Gate	Lock Up Period	Holdback
	2016	2015	2016	2015					
Equities:									
Hedged equity—credit-related	\$ 33,687,586	\$ 35,474,127	\$ -	\$ -					
Fund D	-	8,673,742	-	-	Quarterly	90 days	Investor Level - 25%	N/A	10%
Fund L	17,370,831	8,226,418	-	-	Quarterly	60 days	Master Fund Level - 25%	12 months - Soft Lock	10%
Fund Q	16,316,755	18,573,967	-	-	Quarterly	85 days	Investor Level - 25%	N/A	5%
Hedged equity—fund of funds	15,747,794	17,060,329	-	-	Quarterly	90 days	N/A	N/A	10%
Hedged equity—multi-strategy funds	306,315	296,355	-	-	Illiquid	N/A	N/A	N/A	N/A
Hedged equity—long/short funds	128,438,975	161,353,596	-	-					
Fund K	-	17,905,433	-	-	Quarterly	45 days	N/A	N/A	10%
Fund M	20,145,401	21,361,094	-	-	Annually	60 days	Investor Level - 20%	3 Years - Hard Lock	
Fund O	12,813,729	5,041,609	-	-	Quarterly	45 days	N/A	N/A	5%
Fund R	21,996,805	24,591,598	-	-	Quarterly	60 days	N/A	N/A	5%
Fund U	241,762	16,969,846	-	-	Quarterly	45 days	Master Fund Level - 25%	N/A	5%
Fund V	16,219,177	19,717,097	-	-	Quarterly	60 days	N/A	N/A	10%
Fund X	14,994,621	17,047,034	-	-	Quarterly	45 days	N/A	N/A	5%
Fund Z	18,635,752	21,138,747	-	-	Quarterly	60 days	Master Fund Level - 33%	N/A	5%
Fund AE	16,571,347	17,581,138	-	-	Quarterly	45 days	Investor Level - 25%	N/A	5%
Fund BD	6,820,381	-	-	-	Quarterly	60 days	Investor Level - 25%	N/A	5%
Hedged equity—diversifiers	56,245,216	61,120,933	-	-					
Fund A	14,561,776	17,933,972	-	-	Monthly	60 days	Master Fund Level - 20%	N/A	10%
Fund E	7,515,943	7,045,004	-	-	Monthly	30 days	Fund Level - 25%	N/A	N/A
Fund J	16,228,288	18,209,441	-	-	Quarterly	45 days	Fund Level - 10%	N/A	N/A
Fund N	17,939,209	17,932,516	-	-	Quarterly	90 days	N/A	N/A	10%
Hedged equity—event-driven funds	21,612,489	19,778,651	-	-					
Fund W	14,272,200	19,778,651	-	-	Biennial	90 days	N/A	2 Years - Hard Lock	5%
Fund BB	7,340,289	-	-	-	Quarterly	60 days	Investor Level - 25%	N/A	5%

(Continued)

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

	Fair Value, June 30		Unfunded Commitments, June 30		Redemption Frequency (If Currently Eligible)	Redemption Notice Period	Gate	Lock Up Period	Holdback
	2016	2015	2016	2015					
	Equities (Continued):								
Long-only—domestic equities	\$ 25,666,563	\$ 33,401,403	\$ -	\$ -	Monthly	15 days	N/A	N/A	3%
Long-only—emerging markets	18,950,495	18,930,966	-	-					
Fund B	14,174,252	14,323,155	-	-	Daily	28 days	N/A	N/A	N/A
Fund C	4,776,243	4,607,811	-	-	Daily	28 days	N/A	N/A	N/A
Fund AY	-	-	-	-	Monthly	30 days	N/A	N/A	N/A
Long-only—international	63,809,484	48,734,992	-	-					
Fund T	4,465,329	5,375,211	-	-	Monthly	6 days	N/A	N/A	N/A
Fund AB	31,710,746	34,561,366	-	-	Monthly	6 days	N/A	N/A	N/A
Fund AC	7,540,522	8,798,415	-	-	Monthly	90 days	Master Fund Level - 20%	N/A	N/A
Fund BC	20,092,887	-	-	-	Quarterly	60 days	N/A	N/A	N/A
Private equity	90,531,212	76,102,776	-	16,367,365					
Fund AF	6,945,995	7,144,906	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AG	4,604,950	5,899,945	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AH	8,913,663	7,977,764	2,151,545	2,971,285	Illiquid	N/A	N/A	N/A	N/A
Fund AI	696,693	1,159,051	600,000	600,000	Illiquid	N/A	N/A	N/A	N/A
Fund AK	-	28,980	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AL	10,042,073	10,489,881	853,029	853,028	Illiquid	N/A	N/A	N/A	N/A
Fund AM	161,734	164,144	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AN	3,041,546	4,723,420	1,039,812	1,039,812	Illiquid	N/A	N/A	N/A	N/A
Fund AP	373,400	394,344	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AQ	12,805,671	10,638,731	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AR	20,112,549	18,145,843	2,999,805	2,999,805	Illiquid	N/A	N/A	N/A	N/A
Fund AS	18,460,317	9,335,767	2,475,593	7,903,434	Illiquid	N/A	N/A	N/A	N/A
Fund BE	2,427,480	-	8,142,308	-	Illiquid	N/A	N/A	N/A	N/A
Fund BF	1,391,990	-	8,531,833	-	Illiquid	N/A	N/A	N/A	N/A
Fund BG	553,151	-	9,446,849	-	Illiquid	N/A	N/A	N/A	N/A
Fixed-income—									
global fixed-income fund	15,184,243	15,474,550	-	-	Daily	10 days	N/A	N/A	N/A
Real assets:									
Energy-related hedge funds	13,735,627	16,043,477	-	-					
Fund F	2,122,583	6,093,907	-	-	Quarterly	90 days	N/A	N/A	N/A
Fund G	268,943	597,207	-	-	Quarterly	90 days	N/A	N/A	N/A
Fund H	11,344,101	9,352,363	-	-	Monthly	30 days	Fund Level - 25%	N/A	5%
Private	16,388,700	20,558,836	-	11,570,730					
Fund AT	9,096,707	10,802,692	945,134	752,597	Illiquid	N/A	N/A	N/A	N/A
Fund AU	530,573	1,984,905	1,208,962	1,208,962	Illiquid	N/A	N/A	N/A	N/A
Fund AW	1,851,290	608,613	8,047,856	9,057,450	Illiquid	N/A	N/A	N/A	N/A
Fund AV	2,923,345	4,862,843	451,721	551,721	Illiquid	N/A	N/A	N/A	N/A
Fund AX	1,799,772	2,299,783	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund BH	187,013	-	1,812,989	-	Illiquid	N/A	N/A	N/A	N/A
	<u>\$ 500,304,699</u>	<u>\$ 524,330,991</u>	<u>\$36,240,774</u>	<u>\$ 44,305,459</u>					

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

Equities—hedged equity—credit-related: Funds which invest long and short in a variety of global debt and equity securities, with investment strategies including long/short corporate and asset-backed credit, credit arbitrage, and structured credit.

Equities—hedged equity—fund of funds: Fund which invests in investment partnerships and other investment vehicles, the underlying assets of which are typically publicly traded securities, through a diversified portfolio of hedge fund managers. The fund primarily invests in global macro and credit-related hedge funds.

Equities—hedged equity—multi-strategy fund: Fund which invests in a wide range of global investment strategies through master feeder fund structures. The investment strategies primarily include long/short equity, arbitrage and other relative value strategies, corporate credit, structured credit, and global currencies.

Equities—hedged equity—long/short funds: Funds which invest in global equity securities both long and short.

Equities—hedged equity—diversifier funds: Funds which invest in a wide range of global investment strategies through master feeder structures. The strategies primarily include relative value, systematic, and discretionary global macro.

Equities—hedged equity—event-driven funds: Funds which invest across the capital structure in a wide range of global securities, with a focus on near to medium term catalyst.

Equities—long-only—domestic equities fund: Fund which invests in common and preferred stock from issuers located primarily in the United States.

Equities—long-only—emerging markets funds: Funds which invest in common and preferred stock from issuers in emerging market countries.

Equities—long-only—international funds: Funds which invest in common and preferred stock from issuers in emerging market countries.

Equities—private equity funds: Funds structured as limited partnerships and trusts, which invest in a variety of areas including foreign investments, growth equities, performing and distressed debt, emerging markets, diversified fund of funds and mid-market growth companies. The private equity category is mature, with existing commitments in their harvest periods. The Foundation anticipates receiving half of the distributions over the next three years and then remaining distributions will decrease until fully distributed by approximately 2027. The Foundation intends to utilize these distributions to acquire additional private equity investments.

Fixed-income—global fixed-income fund: Fund which seeks to generate absolute returns regardless of market conditions through strategic investment in countries, currencies, sectors and securities.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

Real assets—energy-related hedge funds: Funds which invest long and short in a wide range of energy-related securities.

Real assets—private funds: Funds structured as limited partnerships which invest in private real (hard) assets. The real assets—private category is mature, with existing commitments in their harvest periods. The Foundation anticipates receiving half of the distributions over the next three years and then remaining distributions will decrease until fully distributed by approximately 2027. The Foundation intends to utilize these distributions to acquire additional private equity investments.

The following table summarizes the valuation techniques and significant unobservable inputs used for the Foundation's assets and liabilities that are categorized within Level 3 of the fair value hierarchy:

Investment Type	Fair Value, June 30		Valuation Techniques	Unobservable Input (c)	Range of Inputs (Weighted Average), June 30	
	2016	2015			2016	2015
Assets:						
Closely held stock	\$ 109,852,090	\$ 79,536,930	Market approach	EBITDA multiple (b)	9.10 (9.10)	8.49 (8.49)
				EBITDA transactions (b)	7.9 (7.9)	7.9 (7.9)
				Book multiple (b)	1.94 (1.94)	1.27 (1.27)
			Discounted cash flows	Capitalization of cash flow (a)	6.9% (6.9%)	6.7% (6.7%)
				Discount for lack of marketability (a)	32% (32%)	26% (26%)
Beneficial interest in trusts	12,101,817	12,790,684	Discounted cash flows	Discount rate (a)	0-4.51% (1.56%)	0-9.4%% (1.17%)
				Expected rate of return (d)	2.4-9.4% (5.34%)	5%-9.4% (5.35%)
Liabilities:						
Funds held on behalf of OSU	5,883,130	5,212,975	Income approach	Present value of future cash outflows (e)	-	-
				Discount rate (a)	0% (0%)	0% (0%)
Funds held on behalf of Cowboy Athletics	21,556,706	23,315,392	Income approach	Present value of future cash outflows (e)	-	-
				Discount rate (a)	0% (0%)	0% (0%)
Funds held on behalf of OSU Alumni Association	14,622,165	15,619,682	Income approach	Present value of future cash outflows (e)	-	-
				Discount rate (a)	0% (0%)	0% (0%)

(a) Represents amounts used when the Foundation has determined that market participants would take into account these discounts or premiums when pricing the asset or liability.

(b) Represents amounts used when the Foundation has determined that market participants would use such multiples when pricing the investments.

(c) Significant increases or decreases in any of the above unobservable inputs in isolation may result in a significantly lower or higher fair value measurement.

(d) Represents the net fair market value of assets to be paid to the Foundation based on terms stated in the trust agreement.

(e) Represents the respective agency's ownership interest in the Foundation's investment pool (i.e., the underlying assets which are measured at fair value). The unobservable inputs for the custodial liability are the same as those for the Foundation's investment pool disclosed throughout Note 6.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 7. Property and Equipment

Property and equipment consist of the following:

	Useful Life	June 30	
		2016	2015
Foundation Operations			
Land	N/A	\$ 2,386,301	\$ 2,056,791
Buildings and leasehold improvements	10–20 years	7,446,241	7,549,693
Equipment	3–10 years	3,847,770	3,735,311
Construction in process	N/A	496,937	11,179
		<u>14,177,249</u>	<u>13,352,974</u>
Less: accumulated depreciation		6,439,789	6,089,479
Net property and equipment, Foundation operations		<u>\$ 7,737,460</u>	<u>\$ 7,263,495</u>
Foundation Programs for OSU			
Land	N/A	\$ 926,217	\$ 1,645,921
Buildings and leasehold improvements	10–20 years	433,295	433,292
Equipment	3–10 years	7,787	7,787
Construction in process	N/A	1,831,196	1,733,773
		<u>3,198,495</u>	<u>3,820,773</u>
Less: accumulated depreciation		210,868	184,601
Net property and equipment, Foundation programs for OSU		<u>\$ 2,987,627</u>	<u>\$ 3,636,172</u>
Net property and equipment		<u>\$ 10,725,087</u>	<u>\$ 10,899,667</u>

Depreciation expense was approximately \$473,000 and \$449,000 for the years ended June 30, 2016 and 2015, respectively.

Note 8. Split-Interest Agreements

Assets recorded under split-interest agreements administered by the Foundation are recognized in the Foundation's consolidated financial statements as follows:

	June 30	
	2016	2015
Cash and investments	\$ 13,246,311	\$ 15,017,138
Property and equipment and other property investments	169,175	1,447,884
Total assets held under split-interest agreements	<u>\$ 13,415,486</u>	<u>\$ 16,465,022</u>
Obligations under split-interest agreements	<u>\$ 8,937,585</u>	<u>\$ 9,041,943</u>

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 8. Split-Interest Agreements (Continued)

Assets received under these agreements are recorded at fair value on the gift date and in the appropriate net asset category. Related contributions are recognized as contribution revenue and are equal to the present value of the future benefits to be received by the Foundation over the term of the agreements. Contribution revenue recognized under these split-interest agreements for the years ended June 30, 2016 and 2015, was approximately \$46,000 and \$191,000, respectively. Liabilities have been established for these split-interest agreements in which the Foundation is the trustee or for which the Foundation is obligated to an annuitant under a charitable gift annuity. These liabilities totaled approximately \$8,938,000 and \$9,042,000 at June 30, 2016 and 2015, respectively.

During the term of these agreements, changes in the value of the split-interest agreements are recognized in the consolidated statements of activities based on accretion of the discounted amount of the contribution, and reevaluations of the expected future benefits (payments) to be received (paid) by the Foundation (beneficiaries), based on changes in life expectancy and other assumptions. Discount rates ranging from 4.2 percent to 10.2 percent were used in these calculations. Split-interest agreements for which the Foundation is the trustee but the charitable beneficiary is revocable are included in the assets and liabilities above. The liability for these revocable agreements is equal to the fair value of the assets.

Note 9. Other Property Investments

Other property investments consist of the following:

	June 30	
	2016	2015
Donated land and buildings	\$ 1,042,000	\$ 1,193,100
Other donated assets	130	93,293
Total other property investments	<u>\$ 1,042,130</u>	<u>\$ 1,286,393</u>

Note 10. Beneficial Interests in Trusts

Beneficial interests in trusts consist of the following:

	June 30	
	2016	2015
Perpetual trusts	\$ 7,924,011	\$ 10,316,028
Charitable remainder trusts	4,177,806	2,474,656
Total beneficial interests in trusts	<u>\$ 12,101,817</u>	<u>\$ 12,790,684</u>

Perpetual trusts and related changes in fair value are classified as permanently restricted net investment gains (losses) in the consolidated statements of activities. Distributions from perpetual trusts are recognized as interest and dividend income in the consolidated statement of activities and are classified as either unrestricted or temporarily restricted in accordance with any donor restrictions, except for distributions received and fully expended in the same period which are classified as unrestricted.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 10. Beneficial Interests in Trusts (Continued)

The Foundation's beneficial interest in remainder trusts and related changes in fair value are classified as temporarily restricted unless the donor restriction requires the gift to be held in perpetuity in which case it is classified as permanently restricted. Beneficial interests in remainder trusts, without donor imposed restrictions, are reclassified to unrestricted net assets upon termination of the trust. Discount rates on these charitable remainder trusts were 4.51 percent in 2016 and 8.18 percent in 2015. Contribution revenue related to these agreements was \$386,568 in 2016 and \$326,741 in 2015.

Note 11. Transactions to Support University Activities

The Foundation entered into an agreement with the University to facilitate the sale of alcoholic beverages at the University-owned Ranchers' Club and Atherton Hotel, which are operated by the University's Student Union, and for special events. The agreement utilizes a limited liability company named Ranchers' Dining, LLC (Ranchers Dining), and its subsidiaries Cowboy Dining, LLC and Pineapple Pete, LLC to accomplish these transactions. The Foundation is the sole member of Ranchers Dining. Ranchers Dining has entered into agreements with the University, and the Foundation believes that as a result of these agreements, the Foundation does not have a significant economic interest in Ranchers Dining. The Foundation also has no legal responsibility for the obligations of Ranchers Dining. Accordingly, Ranchers Dining is not consolidated with the Foundation for financial reporting purposes.

The Foundation for the McKnight Center for the Performing Arts (MCPA Foundation) was formed in fiscal year 2016 to provide support and assistance to OSU in connection with the performing arts of OSU. Specifically, the MCPA Foundation shall provide funding for the performing arts, long-term management and operation of The McKnight Center for the Performing Arts at OSU (McKnight Center) for the benefit of OSU's performing arts programs and to culturally enrich the lives of all OSU students and community. The Foundation has determined that it has an on-going economic interest in the MCPA Foundation and significant influence, but not control. As a result, the Foundation has concluded that MCPA Foundation and the Foundation are financially interrelated organizations. Accordingly, MCPA Foundation is not consolidated with the Foundation for financial reporting purposes; however, contributions raised for the benefit of MCPA Foundation are recognized as contribution revenue in the appropriate net asset category and distributions are recognized as program services expense. Contributions raised during the year ended June 30, 2016 totaled \$25,000,000. There were no distributions to MCPA Foundation in 2016. Subsequent to yearend, the Foundation distributed \$25,000,000 to the MCPA Foundation.

Note 12. Employee Benefit Plan

The Foundation has a defined contribution benefit plan (the plan) covering all employees who meet eligibility requirements under the Plan. The Foundation contributes between 5 percent and 11.5 percent of eligible employees' salaries based on length of service to the Foundation. The Foundation made contributions to the plan of approximately \$1,065,000 and \$918,000 during 2016 and 2015, respectively.

Note 13. Other Transactions With Affiliates

The Foundation has a contract with the University to coordinate and manage development programs for the benefit of the University. Revenue for services rendered under this contract was approximately \$3,575,000 and \$3,503,000, respectively, for the years ended June 30, 2016 and 2015, of which approximately \$1,876,000 and \$1,743,000 at June 30, 2016 and 2015, respectively, was still outstanding and is included in interest and other receivables in the consolidated statements of financial position.

Oklahoma State University Foundation

Notes to Consolidated Financial Statements

Note 13. Other Transactions With Affiliates (Continued)

The Foundation has an agency agreement with Cowboy Athletics whereby the Foundation will hold and safe keep assets in a custodial account to serve as collateral for a certain loan agreement between Cowboy Athletics and its lender. The agency fund assets and liabilities result from distributions from the Foundation to Cowboy Athletics recognized as program services Cowboy Athletics expense in the consolidated statements of activities and a simultaneous increase in the agency liability reflected as funds held on behalf of Cowboy Athletics in the consolidated statements of financial position. Distributions from the Foundation to the agency account were \$-0- and \$559,850, respectively, for the years ended June 30, 2016 and 2015. Cowboy Athletics may make written requests to the Foundation with written notice to the lender to transfer the assets to Cowboy Athletics. Requests for transfers from the agency account totaled \$-0- and \$1,000,000, respectively, for the years ended June 30, 2016 and 2015. (In 2015, Cowboy Athletics directed that these transfer requests be reinvested in other intercollegiate athletic accounts at the Foundation, and as a result, the Foundation recognized contribution revenue from Cowboy Athletics totaling \$1,000,000, in its consolidated statements of activities.) The Foundation held assets (included in cash and investments) and a corresponding liability of \$21,556,706 and \$23,315,392 at June 30, 2016 and 2015, respectively.

In recognition that the Foundation's status as a separate not-for-profit corporation offers certain advantages both to donors and to the University with regard to the contribution, management, and disbursement of private funds, the Foundation and the Board of Regents of Oklahoma State University and the Agricultural and Mechanical Colleges adhere to a joint resolution. This agreement states that to the fullest extent permitted by law, all gifts and donations to the University be managed, invested, reinvested and distributed by and through the Foundation and that all private gifts for the benefit of the University are to be made to the Foundation, rather than to the University or Board of Regents. This agreement further recognizes the existence of the Foundation as the entity responsible for the coordination and management of a development program for non-athletic gifts and recognizes Cowboy Athletics as the entity responsible for the coordination and management of a development program for athletic gifts. The resolution provides that contributions received by the Foundation for the benefit of athletics may be transferred to Cowboy Athletics by donor direction or at the request of the Vice President for Athletic Programs and Director of Intercollegiate Athletics (VP for Athletic Programs). The agreement also states that upon transfer to Cowboy Athletics, the Foundation has no further authority or responsibility for the funds. At the direction of the VP for Athletic Programs, the Foundation provided funds totaling approximately \$6,530,000 and \$12,637,000 held for the benefit of the Athletic Department to Cowboy Athletics during 2016 and 2015, respectively. These distributions are recognized as Cowboy Athletics program services expense in the consolidated statements of activities. (In 2015, funds totaling \$559,850 distributed in accordance with this agreement and included in Cowboy Athletics program services expense, were directed by Cowboy Athletics to the custodial account held by the Foundation.)

Note 14. Line of Credit

In October 2015, the Foundation entered into an agreement with a financial institution providing for a \$20,000,000 unsecured revolving line of credit. The maturity date is October 23, 2020 and interest is at a variable 30, 60 or 90 day LIBOR rate as elected by the Foundation plus ninety hundredths percent (.90%) per annum, adjusted on each day on which a change in LIBOR occurs. There were no draws on the line of credit during the year ended June 30, 2016.

Note 15. Subsequent Events

The Foundation has entered into construction contracts with unrelated parties, in the amount of \$1,175,425 (including change orders), for the construction of a building addition. At June 30, 2016, none of the above commitment amount had been incurred.



RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Board of Trustees
Oklahoma State University Foundation
Stillwater, Oklahoma

We have audited the consolidated financial statements of Oklahoma State University Foundation as of and for the year ended June 30, 2016, and have issued our report thereon, which contained an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements, or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Oklahoma City, Oklahoma
October 14, 2016

Oklahoma State University Foundation

Combining Schedule of Activities—Intercollegiate Athletic Accounts
Year Ended June 30, 2016

	Football	Basketball		Other Sports		Athletic Facilities	Nonprogram Specific	Total
		Men's	Women's	Men's	Women's			
Revenues:								
Contributions:								
Cash	\$ 5,368,144	\$ 3,070,496	\$ 188,668	\$ 1,249,747	\$ 374,862	\$ 7,821,268	\$ 1,098,776	\$ 19,171,961
Securities	12,660	14,368	5,513	80,662	3,185	53,539	1,028,080	1,198,007
Land, goods, services and other	22,280	30,385	510	77,075	476,878	-	22,150	629,278
Promises to give	-	-	125,000	250,000	-	11,838,030	-	12,213,030
Interest and dividends	12,124	13,186	1,756	19,853	3,948	166,640	56,884	274,391
Net investment losses	(77,089)	(86,603)	(11,478)	(127,065)	(25,987)	(1,030,475)	(363,082)	(1,721,779)
Provision for uncollectible pledges	1,175	4,938	(14,187)	(92,277)	-	(2,182,109)	(543,581)	(2,826,041)
Other income	(545)	(643)	280	23,595	7,458	408	91,308	121,861
Reclassifications—donor directed	-	5,026	18,364	5,000	-	28,990	(20,390)	36,990
Net intercollegiate athletic transfers	(1,198,994)	(1,282,151)	13,445	115,526	(1,305)	1,876,755	615,520	138,796
Total revenues	4,139,755	1,769,002	327,871	1,602,116	839,039	18,573,046	1,985,665	29,236,494
Expenses:								
Program expenses:								
Budget support	4,900,000	3,500,000	-	87,000	65,000	3,500,000	10,000	12,062,000
Scholarship	-	500	2,000	-	-	-	10,000	12,500
General administration	182,276	163,837	43,962	185,815	45,725	1,094,301	1,354,922	3,070,838
Facilities, equipment and other purchases	-	-	-	5,359	86,831	-	640	92,830
Travel	6,218	33,275	15,522	29,651	28,206	-	179,909	292,781
Distribution of land, goods and services	22,280	30,385	510	77,075	476,879	-	22,150	629,279
Distributions to Cowboy Athletics	-	-	-	749,000	173,200	5,607,392	-	6,529,592
Building and equipment maintenance	44,256	18,201	13,537	14,929	10,280	-	14,658	115,861
Total expenses	5,155,030	3,746,198	75,531	1,148,829	886,121	10,201,693	1,592,279	22,805,681
Change in net assets	(1,015,275)	(1,977,196)	252,340	453,287	(47,082)	8,371,353	393,386	6,430,813
Net assets, beginning of year	6,942,522	5,903,171	1,018,311	6,770,127	1,415,652	70,904,281	24,062,315	117,016,379
Net assets, end of year	\$ 5,927,247	\$ 3,925,975	\$ 1,270,651	\$ 7,223,414	\$ 1,368,570	\$ 79,275,634	\$ 24,455,701	\$ 123,447,192

