



OKLAHOMA STATE UNIVERSITY FOUNDATION

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2017 and 2016

WITH

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Oklahoma State University Foundation

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, 2017, 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 consolidated financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma State University Foundation as of June 30, 2017, 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.

Other Matters

Predecessor Auditor

The financial statements of the Foundation, as of and for the year ended June 30, 2016, were audited by other auditors, whose report, dated October 14, 2016, expressed an unmodified opinion on those statements.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental 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.

A handwritten signature in black ink that reads "Hogan Taylor LLP". The signature is written in a cursive, flowing style.

Tulsa, Oklahoma
October 27, 2017

OKLAHOMA STATE UNIVERSITY FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 7,607,411	\$ 4,932,098
Investments	923,756,172	890,943,734
Contributions receivable, net	83,975,250	58,663,556
Interest and other receivables	2,651,661	2,387,857
Other property investments	2,552,246	1,042,130
Property and equipment, net	14,718,206	10,725,087
Beneficial interests in trusts	12,945,639	12,101,817
Other assets	3,639,639	3,579,572
	<u>\$ 1,051,846,224</u>	<u>\$ 984,375,851</u>
Liabilities and Net Assets		
Liabilities:		
Oklahoma State University support payable	\$ 2,552,846	\$ 8,076,535
Accounts payable and accrued liabilities	2,446,630	2,108,008
Funds held on behalf of Oklahoma State University	6,404,576	5,883,130
Funds held on behalf of Cowboy Athletics	130,390	21,556,706
Funds held on behalf of Oklahoma State University Alumni Association	16,478,074	14,622,165
Obligations under split-interest agreements	9,130,078	8,937,585
Unearned revenue	332,500	28,500
Line of credit	3,480,000	-
	<u>40,955,094</u>	<u>61,212,629</u>
Total liabilities	40,955,094	61,212,629
Net assets:		
Unrestricted	369,640,486	306,495,150
Temporarily restricted	188,714,773	171,489,879
Permanently restricted	452,535,871	445,178,193
	<u>1,010,891,130</u>	<u>923,163,222</u>
Total net assets	1,010,891,130	923,163,222
Total liabilities and net assets	<u>\$ 1,051,846,224</u>	<u>\$ 984,375,851</u>

OKLAHOMA STATE UNIVERSITY FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2017
(With comparative totals for year ended June 30, 2016)

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, gains and support					
Contributions:					
Cash	\$ 41,734,096	\$ 4,905,411	\$ 7,960,147	\$ 54,599,654	\$ 68,563,044
Securities	3,071,901	5,155,847	1,835,385	10,063,133	5,279,572
Land, goods, services and other	3,742,344	44,789	200,000	3,987,133	2,823,707
Promises to give	-	52,579,664	2,592,363	55,172,027	27,434,990
Cowboy Athletics	5,066,142	-	-	5,066,142	-
Total contributions	53,614,483	62,685,711	12,587,895	128,888,089	104,101,313
Provision for uncollectible pledges	-	(2,438,566)	(31,600)	(2,470,166)	(4,663,568)
Interest and dividends, net	2,870,327	3,701,838	-	6,572,165	1,268,361
Net investment gains (losses)	40,872,396	44,103,962	(6,979,444)	77,996,914	(6,546,941)
Contract support services	3,247,808	-	-	3,247,808	3,574,751
Net gains (losses) on disposals of property and equipment and other property investments	(76,162)	109	-	(76,053)	(121,392)
Management fee income	9,418,761	(8,606,718)	-	812,043	534,996
Change in value of split-interest agreements	86,911	270,227	470,525	827,663	(1,150,110)
Other income	496,540	(26,240)	99,770	570,070	1,586,063
Reclassifications - donor directed	2,677,195	(3,887,727)	1,210,532	-	-
Net assets released from restrictions	78,577,702	(78,577,702)	-	-	-
Total revenues, gains and support	191,785,961	17,224,894	7,357,678	216,368,533	98,583,473
Expenses					
Program services:					
Intercollegiate athletics	13,242,539	-	-	13,242,539	14,837,710
Cowboy Athletics	5,403,612	-	-	5,403,612	6,529,592
Library	740,732	-	-	740,732	545,802
Research	1,275,262	-	-	1,275,262	2,325,634
General University support	46,668,427	-	-	46,668,427	13,082,017
Awards and scholarships	17,290,589	-	-	17,290,589	17,482,976
Endowed faculty and lectureship programs	6,785,457	-	-	6,785,457	7,261,105
Facilities and equipment	17,603,591	-	-	17,603,591	6,069,621
Total program services	109,010,209	-	-	109,010,209	68,134,457
Management and general	5,823,935	-	-	5,823,935	5,577,307
Fundraising	13,771,744	-	-	13,771,744	14,972,214
Charitable legacy distributions	34,737	-	-	34,737	7,500
Total expenses	128,640,625	-	-	128,640,625	88,691,478
Change in net assets	63,145,336	17,224,894	7,357,678	87,727,908	9,891,995
Net assets, beginning of year	306,495,150	171,489,879	445,178,193	923,163,222	913,271,227
Net assets, end of year	\$ 369,640,486	\$ 188,714,773	\$ 452,535,871	\$ 1,010,891,130	\$ 923,163,222

See notes to consolidated financial statements.

OKLAHOMA STATE UNIVERSITY FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and support				
Contributions:				
Cash	\$ 33,144,549	\$ 27,782,549	\$ 7,635,946	\$ 68,563,044
Securities	1,461,295	2,435,796	1,382,481	5,279,572
Land, goods, services and other	2,257,165	136,542	430,000	2,823,707
Promises to give	-	22,608,284	4,826,706	27,434,990
Total contributions	36,863,009	52,963,171	14,275,133	104,101,313
Provision for uncollectible pledges	-	(4,141,736)	(521,832)	(4,663,568)
Interest and dividends, net	567,524	700,837	-	1,268,361
Net investment gains (losses)	13,921,921	(5,694,693)	(14,774,169)	(6,546,941)
Contract support services	3,574,751	-	-	3,574,751
Net gains (losses) on disposals of property and equipment and other property investments	(186,687)	65,295	-	(121,392)
Management fee income	9,057,064	(8,522,068)	-	534,996
Change in value of split-interest agreements	(451,499)	(1,187,115)	488,504	(1,150,110)
Other income	1,607,779	(13,667)	(8,049)	1,586,063
Reclassifications - donor directed	(3,714,337)	2,364,561	1,349,776	-
Net assets released from restrictions	31,165,144	(30,015,439)	(1,149,705)	-
Total revenues, gains and support	92,404,669	6,519,146	(340,342)	98,583,473
Expenses				
Program services:				
Intercollegiate athletics	14,837,710	-	-	14,837,710
Cowboy Athletics	6,529,592	-	-	6,529,592
Library	545,802	-	-	545,802
Research	2,325,634	-	-	2,325,634
General University support	13,082,017	-	-	13,082,017
Awards and scholarships	17,482,976	-	-	17,482,976
Endowed faculty and lectureship programs	7,261,105	-	-	7,261,105
Facilities and equipment	6,069,621	-	-	6,069,621
Total program services	68,134,457	-	-	68,134,457
Management and general	5,577,307	-	-	5,577,307
Fundraising	14,972,214	-	-	14,972,214
Charitable legacy distributions	7,500	-	-	7,500
Total expenses	88,691,478	-	-	88,691,478
Change in net assets	3,713,191	6,519,146	(340,342)	9,891,995
Net assets, beginning of year	302,781,959	164,970,733	445,518,535	913,271,227
Net assets, end of year	\$ 306,495,150	\$ 171,489,879	\$ 445,178,193	\$ 923,163,222

See notes to consolidated financial statements.

OKLAHOMA STATE UNIVERSITY FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 87,727,908	\$ 9,891,995
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net investment (gains) losses	(77,996,914)	6,546,941
Change in value of split-interest agreements	(827,663)	1,150,110
Distributions from beneficial interest in trusts	-	48,219
Losses on disposals of property and equipment and other property investments	76,053	121,392
Contributions restricted for long-term investment, cash	(10,183,307)	(12,360,212)
Contributions restricted for long-term investment, securities	(1,835,385)	(1,382,481)
Contributions restricted for long-term investment, land, goods, services and other	(200,000)	(430,000)
Noncash distributions	3,603,482	3,573,486
Noncash contributions	(13,985,866)	(8,040,189)
Proceeds from sales of donated financial assets	7,235,968	3,647,460
Depreciation expense	431,338	473,326
Change in discount on contributions receivable	228,561	(1,023,142)
Provision for uncollectible pledges	2,470,166	4,663,568
Changes in operating assets and liabilities:		
Contributions receivable, net	(28,010,421)	(4,557,850)
Interest and other receivables	(263,804)	1,080,714
Other assets	(60,067)	(144,301)
Oklahoma State University support payable	(5,523,689)	5,620,544
Accounts payable and accrued liabilities	338,622	(127,989)
Funds held on behalf of Oklahoma State University	521,446	670,155
Funds held on behalf of Cowboy Athletics	(21,426,316)	(1,758,686)
Funds held on behalf of Oklahoma State University Alumni Association	1,855,909	(997,517)
Obligations under split-interest agreements	720,545	(254,402)
Unearned revenue	304,000	-
Net cash provided by (used in) operating activities	(54,799,434)	6,411,141
Cash Flows from Investing Activities		
Purchase of investments	(231,233,830)	(220,752,068)
Proceeds from sales and maturities of investments	278,636,858	202,571,067
Proceeds from sale of other property investments	32,290	645,404
Purchases of other property investments	(1,198,464)	(429,009)
Proceeds from sale of property and equipment	124,589	411,895
Purchases of property and equipment	(4,585,388)	(1,617,033)
Net cash provided by (used in) investing activities	41,776,055	(19,169,744)
Cash Flows from Financing Activities		
Contributions restricted for long-term investment	12,218,692	14,172,693
Proceeds from line of credit	3,480,000	-
Net cash provided by financing activities	15,698,692	14,172,693
Net increase in cash and cash equivalents	2,675,313	1,414,090
Cash and cash equivalents at beginning of year	4,932,098	3,518,008
Cash and cash equivalents at end of year	\$ 7,607,411	\$ 4,932,098

See notes to consolidated financial statements.

OKLAHOMA STATE UNIVERSITY FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Years ended June 30, 2017 and 2016

	2017	2016
Supplemental Disclosures of Cash Flow Information		
Interest paid	\$ 7,112	\$ -
Noncash transfers of property and equipment to Oklahoma State University	\$ -	\$ 1,149,705
Noncash transfers of other property investments to Oklahoma State University	\$ 3,603,482	\$ 2,423,781
Donated securities	\$ 9,661,157	\$ 4,893,003
Donation of beneficial interest	\$ 337,575	\$ 386,568
Donated other property investments	\$ 3,987,134	\$ 2,330,618
Donated services provided for the benefit of Oklahoma State University	\$ 64,400	\$ 63,090
Beneficial interest in trusts transferred from contributions receivable	\$ -	\$ 2,364,867

OKLAHOMA STATE UNIVERSITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

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, changes in net assets, and cash flows of the Foundation. The Foundation has approximately 5,200 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. (FEOSU), 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 LLCs. All material inter-organization transactions of the affiliated organization and the LLCs have been eliminated. The Foundation, its affiliate and the LLCs 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 consolidated 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.

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 stipulations 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, 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 short-term funds held in the Foundation's investment portfolio, to be cash equivalents.

Investments

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

Marketable securities – Marketable securities include fixed-income investments (cash and short-term funds, global and domestic bond mutual funds), balanced mutual funds, commodities, equity investments (common and preferred stock, equity mutual funds), and real asset securities. 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 the Foundation management. Nonmarketable securities, not valued using the practical expedient, are stated at fair value for 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 for the years ended June 30, 2017 and 2016.

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 for the years ended June 30, 2017 and 2016.

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.

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, Inc.

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 OSU 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 OSU 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 (see 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% 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 \$17,000 and \$12,000 to University accounts and distributed assets totaling approximately \$35,000 and \$8,000 to other not-for-profit organizations from these donor-advised funds during the years ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, the Foundation held charitable legacy fund assets totaling approximately \$1,265,000 and \$1,125,000, 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. Charitable legacy distributions are based on actual distributions to other not-for-profit organizations in conjunction with certain donor-advised funds.

Net asset 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 four and three donors totaling approximately \$41,887,000 and \$29,653,000 in the years ended June 30, 2017 and 2016, respectively. These contributions represent approximately 34% and 28% of total contribution revenue in 2017 and 2016, respectively. Net contributions receivable totaling approximately \$43,997,000 and \$19,613,000 are due from seven donors at June 30, 2017 and 2016, respectively. These receivables represent approximately 52% and 35% of total net contributions receivable at June 30, 2017 and 2016, respectively.

The Foundation has a closely held stock that represents approximately 12% of the total investment balance at June 30, 2017 and 2016.

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 ended on or before June 30, 2013.

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.

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 at June 30, 2017 and 2016.

Reclassification

Certain reclassifications have been made to the 2016 consolidated statement of activities to correspond to the current year's format. These reclassifications did not have an impact on net assets or changes in net assets.

Recent accounting pronouncement

On August 26, 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-15, *Statement of Cash Flows (Topic 230); Classification of Certain Cash Receipts and Cash Payments*. The amendments in the 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 consolidated 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 consolidated 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 consolidated 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. Contributions to not-for-profit entities is not included in this update. The Foundation is currently evaluating the effect implementation of ASU No. 2014-09 will have on its consolidated financial statements.

Subsequent events

Management has evaluated subsequent events through October 27, 2017, the date the consolidated financial statements were available to be issued. See Note 16 for a discussion of subsequent event matters.

Note 2 – Investments

Investments consisted of the following at June 30:

	2017	2016
Marketable securities:		
Fixed-income:		
Cash and short-term funds	\$ 52,324,889	\$ 68,940,962
Global fixed-income mutual funds	46,195,509	24,661,267
U.S. fixed-income mutual funds	562,450	509,522
Equity:		
Long-only - domestic	103,089,346	65,418,905
Long-only - emerging markets	12,515,866	5,106,649
Long-only - global	1,597,525	33,098,914
Long-only - international	57,710,650	46,581,841
Real asset securities - public	33,266,174	36,468,885
Total marketable securities	307,262,409	280,786,945

	<u>2017</u>	<u>2016</u>
Nonmarketable securities:		
Equity:		
Hedged equity - credit related	37,621,929	33,687,586
Hedged equity - fund of funds	818,183	15,747,794
Hedged equity - multistrategy funds	278,937	306,315
Hedged equity - long/short funds	101,446,307	128,438,975
Hedged equity - diversifiers	67,503,418	56,245,216
Hedged equity - event driven	30,623,397	21,612,489
Long-only - domestic equities	-	25,666,563
Long-only - emerging markets	32,247,531	18,950,495
Long-only-international	79,551,378	63,809,484
Private equity	103,048,819	90,718,223
Fixed-income - global fixed-income fund	24,406,698	15,184,243
Real assets:		
Energy-related hedge funds	9,468,495	13,735,627
Private funds	16,393,497	16,201,689
Closely held stock	113,085,174	109,852,090
	<u>616,493,763</u>	<u>610,156,789</u>
Total nonmarketable securities		
	<u>\$ 923,756,172</u>	<u>\$ 890,943,734</u>

Net investment gains and losses consists of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 9,432,871	\$ 4,078,897
Investment fees	(2,860,706)	(2,810,536)
	<u>\$ 6,572,165</u>	<u>\$ 1,268,361</u>
Interest and dividends, net		
Net realized gains (losses) on investments carried at fair value	\$ 45,035,336	\$ (5,051,987)
Net unrealized gains on investments carried at fair value	32,754,942	897,063
Change in fair value of perpetual trusts	206,636	(2,392,017)
	<u>\$ 77,996,914</u>	<u>\$ (6,546,941)</u>
Net investment gains (losses)		

Note 3 – Contributions, Interest and Other Receivables

Unconditional contributions receivable, including amounts due under pledge agreements, are expected to be collected as follows at June 30:

	2017	2016
Contributions receivable in:		
Less than one year	\$ 20,242,061	\$ 25,708,827
One year to five years	46,792,910	41,275,075
Over five years	37,120,335	10,012,481
	<u>104,155,306</u>	<u>76,996,383</u>
Less:		
Unamortized discount (2.25% - 8.37%)	12,155,505	11,926,945
Allowance for uncollectible pledges	8,024,551	6,405,882
	<u>\$ 83,975,250</u>	<u>\$ 58,663,556</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.

Unconditional contributions receivable net of discount and allowance that are temporarily restricted and permanently restricted are described in the table below at June 30:

	2017	2016
Temporarily restricted:		
Intercollegiate athletics	\$ 45,817,525	\$ 21,746,809
General University support	9,654,500	3,591,394
Awards and scholarships	2,602,384	2,662,209
Facilities and equipment	21,108,277	25,039,823
Other	479,045	249,405
	<u>79,661,731</u>	<u>53,289,640</u>
Permanently restricted:		
Intercollegiate athletics	325,720	308,607
General University support	1,192,099	1,123,079
Awards and scholarships	2,441,014	3,499,225
Endowed faculty and lectureship programs	310,578	396,785
Other	44,108	46,220
	<u>4,313,519</u>	<u>5,373,916</u>
	<u>\$ 83,975,250</u>	<u>\$ 58,663,556</u>

Conditional promises to give are substantially the result of the Foundation being named as the beneficiary in an estate plan or a valid will. 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. The Foundation does not currently have sufficient information to estimate the amounts of conditional promises to give.

Interest and other receivables are expected to be fully collected within one year and consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Interest and other receivables:		
Receivable from OSU	\$ 1,601,059	\$ 1,876,027
Other receivables	1,050,602	511,830
	<u>\$ 2,651,661</u>	<u>\$ 2,387,857</u>

Note 4 – Net Assets

Unrestricted net assets consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Designated for the University:		
Intercollegiate athletics	\$ 111,691,611	\$ 83,093,347
Library	1,383,154	1,405,857
Research	2,856,706	2,414,346
General University support	165,150,969	156,240,627
Awards and scholarships	45,428,618	41,026,023
Endowed faculty and lectureship positions (a)	4,781,602	(198,951)
Facilities and equipment	16,483,008	13,607,397
Charitable legacy fund	1,265,455	1,125,323
	<u>349,041,123</u>	<u>298,713,969</u>
Designated for the Foundation (b):		
Invested in property and equipment (c)	14,718,206	10,725,087
Losses on short-term investment funds (d)	(934,972)	(13,702,192)
OSU foundation reserves and general support (e)	6,816,129	10,758,286
	<u>20,599,363</u>	<u>7,781,181</u>
	<u>\$ 369,640,486</u>	<u>\$ 306,495,150</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) Unrestricted net assets invested in property and equipment represent the Foundation's building, furniture and equipment.
- d) Losses on short-term investment funds represents the difference between the fair market value of short-term investment funds compared to the total amount available for distribution to the University.
- e) Foundation reserves and general support represent quasi-endowments established for the purpose of providing a revenue stream for Foundation operations.

Temporarily and permanently restricted net assets are restricted for the following at June 30:

	2017	2016
Temporarily restricted:		
Intercollegiate athletics	\$ 56,431,465	\$ 29,811,010
Library	951,322	1,177,955
Research	309,544	191,550
General University support	24,344,984	41,596,517
Awards and scholarships	38,750,661	27,167,039
Endowed faculty and lectureship programs	23,157,096	17,688,437
Facilities and equipment	44,769,701	53,857,371
	<u>\$ 188,714,773</u>	<u>\$ 171,489,879</u>
Permanently restricted:		
Intercollegiate athletics	\$ 12,581,741	\$ 10,542,835
Library	4,908,785	4,850,139
Research	4,218,038	4,207,478
General University support	23,187,863	22,239,825
Awards and scholarships	204,718,120	196,641,380
Endowed faculty and lectureship programs	197,787,184	201,589,728
Facilities and equipment	4,789,568	4,778,521
OSU Foundation reserves and general support	344,572	328,287
	<u>\$ 452,535,871</u>	<u>\$ 445,178,193</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 3,200 and 3,000 funds at June 30, 2017 and 2016, respectively, 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.

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, 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (1,628,355)	\$ 59,274,042	\$ 434,909,590	\$ 492,555,277
Board-designated endowment funds	94,125,229	-	-	94,125,229
Total endowment funds	<u>\$ 92,496,874</u>	<u>\$ 59,274,042</u>	<u>\$ 434,909,590</u>	<u>\$ 586,680,506</u>

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>

Changes in endowment net assets for the year ended June 30, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 76,585,463	\$ 41,329,598	\$ 427,630,691	\$ 545,545,752
Investment return:				
Interest and dividends	1,043,484	5,494,397	-	6,537,881
Investment fees	(365,357)	(1,810,103)	-	(2,175,460)
Net realized and unrealized gains (losses)	18,311,012	44,103,673	(7,213,679)	55,201,006
Total investment return	18,989,139	47,787,967	(7,213,679)	59,563,427
Donor-restricted additions:				
Current-year endowment contributions transferred	-	-	8,974,647	8,974,647
Collection of current- and prior-year pledges	-	-	2,989,109	2,989,109
Transfers of prior-year contributions	-	-	2,388,468	2,388,468
Total donor-restricted additions	-	-	14,352,224	14,352,224
Management fee	(1,734,369)	(8,503,079)	-	(10,237,448)
Appropriation of endowment assets for expenditure	(2,250,111)	(21,465,852)	-	(23,715,963)
Reinvestment of amounts appropriated	-	522,833	-	522,833
Reclassification-donor directed	-	(313,947)	140,354	(173,593)
Transfers to Board-designated and donor-restricted endowment funds	906,752	(83,478)	-	823,274
Endowment net assets, end of year	<u>\$ 92,496,874</u>	<u>\$ 59,274,042</u>	<u>\$ 434,909,590</u>	<u>\$ 586,680,506</u>

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 transferred	-	-	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	<u>\$ 76,585,463</u>	<u>\$ 41,329,598</u>	<u>\$ 427,630,691</u>	<u>\$ 545,545,752</u>

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 \$1,628,355 and \$9,588,857 at June 30, 2017 and 2016, 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.

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% equity/growth-based, 10% real assets/inflation, and 10% 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% of new gifts and reinvested funds, unless the endowment account's market value is less than its historic gift value. In 2017 and 2016, 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% of the historic gift value, the endowment fund's spending policy is 3% 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% of the historic gift value, spending is not allowed from the endowment account. The spending policy distribution was \$23,715,963 and \$22,261,644 for the years ended June 30, 2017 and 2016, 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 regard 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.

The methods and assumptions used to estimate the fair value of assets and liabilities in the consolidated 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 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; therefore, management believes the carrying amount approximates fair value.

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 and equivalents. The related and associated liability is classified as Level 3 in the hierarchy as there is no market for a similar liability and certain principal inputs (i.e., fair value inputs of nonmarketable 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 and line of credit

The liabilities are carried at cost, which approximates fair value due to the short maturity of those amounts.

Assets and liabilities measured at fair value on a recurring basis are classified within the fair value hierarchy at June 30, 2017, as follows:

	Total	Level 1	Level 2	Level 3
Assets:				
Marketable securities:				
Fixed-income:				
Cash and short-term funds	\$ 52,324,889	\$ 52,324,889	\$ -	\$ -
Global fixed-income mutual funds	46,195,509	46,195,509	-	-
U.S. fixed-income mutual funds	562,450	562,450	-	-
Equities:				
Long-only - domestic	103,089,346	103,089,346	-	-
Long-only - emerging markets	12,515,866	12,515,866	-	-
Long-only - global	1,597,525	1,597,525	-	-
Long-only - international	57,710,650	57,710,650	-	-
Real asset securities - public	33,266,174	33,266,174	-	-
Total marketable securities	307,262,409	307,262,409	-	-
Nonmarketable securities:				
Nonmarketable securities at NAV (a)				
Closely held stock	503,408,589	-	-	113,085,174
	113,085,174	-	-	113,085,174
Total nonmarketable securities	616,493,763	-	-	113,085,174
Total investments	923,756,172	307,262,409	-	113,085,174
Beneficial interests in trusts	12,945,639	-	-	12,945,639
Total assets	\$ 936,701,811	\$ 307,262,409	\$ -	\$ 126,030,813
Liabilities:				
Funds held on behalf of OSU	\$ 6,404,576	\$ -	\$ -	\$ 6,404,576
Funds held on behalf of Cowboy Athletics	130,390	-	-	130,390
Funds held on behalf of OSU Alumni Association	16,478,074	-	-	16,478,074
Total liabilities	\$ 23,013,040	\$ -	\$ -	\$ 23,013,040

(a) In accordance with ASC 820-10, certain investments that are measured at fair value using the NAV 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.

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 asset securities - public	36,468,885	36,468,885	-	-
Total marketable securities	280,786,945	280,786,945	-	-
Nonmarketable securities:				
Nonmarketable securities at NAV (a)				
Closely held stock	500,304,699			109,852,090
	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	\$ 903,045,551	\$ 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

(a) In accordance with ASC 820-10, certain investments that are measured at fair value using the NAV 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.

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, 2015	\$ 79,536,930	\$ 12,790,684	\$ 5,212,975	\$ 23,315,392	\$ 15,619,682
Net realized and unrealized gains (losses) included in earnings	31,615,896	(2,392,017)	(233,722)	(1,758,686)	(530,683)
	-	(48,219)	(92,123)	-	(1,096,975)
Contributions	-	386,568	996,000	-	630,141
Transfer from contribution 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
Net realized and unrealized gains included in earnings	4,533,368	206,636	628,934	2,218,100	1,725,725
Distributions	-	(45,498)	(132,488)	(23,644,416)	(1,026,144)
Contributions	-	383,072	25,000	-	1,156,328
Change in value of split-interests	-	299,612	-	-	-
Sales of investments	(1,300,284)	-	-	-	-
Balance at June 30, 2017	\$ 113,085,174	\$ 12,945,639	\$ 6,404,576	\$ 130,390	\$ 16,478,074

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:

	2017	2016
Total gains for the period included in change in net assets	\$ 4,740,004	\$ 29,223,879
Change in unrealized gains for the period included in change in net assets for assets held at the end of the reporting period	\$ 4,740,004	\$ 29,223,879

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 eight 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, 2017 and 2016, the fair value of the derivative assets is \$95,793 and \$3,329,350, respectively, and the fair value of the derivative liabilities is \$205,439 and \$698,283, respectively. The net value of \$(109,646) and \$2,631,067 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 consolidated statement of activities.

The Foundation's investments in certain entities that calculate net asset 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
	2017	2016	2017	2016					
Equities:									
Hedged equity - credit-related:									
Fund L	\$ 19,676,495	\$ 17,370,831	\$ -	\$ -	Quarterly	60 days	Master Fund Level - 25%	N/A	10%
Fund Q	17,945,434	16,316,755	-	-	Quarterly	85 days	Investor Level - 25%	N/A	5%
Total hedged equity - credit-related	37,621,929	33,687,586	-	-					
Hedged equity - fund of funds	818,183	15,747,794	-	-	Quarterly	N/A	N/A	N/A	10%
Hedged equity - multi-strategy funds	278,937	306,315	-	-	Illiquid	N/A	N/A	N/A	N/A
Hedged equity - long/short funds:									
Fund M	23,262,203	20,145,401	-	-	Quarterly	60 days	Investor Level - 20%	3 Years - Hard Lock	5%
Fund O	13,745,998	12,813,729	-	-	Quarterly	45 days	N/A	N/A	5%
Fund R	586,371	21,996,804	-	-	Quarterly	60 days	N/A	N/A	5%
Fund U	-	241,762	-	-	Quarterly	45 days	Master Fund Level - 25%	N/A	5%
Fund V	-	16,219,177	-	-	Quarterly	60 days	N/A	N/A	10%
Fund X	16,698,047	14,994,621	-	-	Quarterly	45 days	N/A	N/A	5%
Fund Z	21,448,460	18,635,752	-	-	Quarterly	60 days	Master Fund Level - 33%	N/A	5%
Fund AE	17,735,075	16,571,347	-	-	Quarterly	45 days	Investor Level - 25%	N/A	5%
Fund BD	7,970,153	6,820,382	-	-	Quarterly	60 days	Investor Level - 25%	N/A	5%
Total hedged equity - long/short funds	101,446,307	128,438,975	-	-					
Hedged equity - diversifiers:									
Fund A	16,087,398	14,561,776	-	-	Monthly	60 days	Master Fund Level - 20%	N/A	10%
Fund E	6,247,539	7,515,943	-	-	Monthly	30 days	Fund Level - 25%	N/A	N/A
Fund J	17,452,606	16,228,288	-	-	Quarterly	45 days	Fund Level - 10%	N/A	N/A
Fund N	17,643,456	17,939,209	-	-	Quarterly	90 days	N/A	N/A	10%
Fund BK	10,072,419	-	-	-	Quarterly	65 days	N/A	N/A	5%
Total hedged equity - diversifiers	67,503,418	56,245,216	-	-					
Hedged equity - event-driven:									
Fund W	19,261,114	14,272,200	-	-	Biennial	90 days	N/A	2 Years - Hard Lock	5%
Fund BB	11,362,283	7,340,289	-	-	Quarterly	65 days	Investor Level - 25%	N/A	5%
Total hedged equity - event-driven	30,623,397	21,612,489	-	-					
Long-only - domestic equities	-	25,666,563	-	-	Monthly	15 days	N/A	N/A	3%
Long-only - emerging markets:									
Fund B	16,907,059	14,174,252	-	-	Daily	28 days	N/A	N/A	N/A
Fund C	5,137,169	4,776,243	-	-	Daily	28 days	N/A	N/A	N/A
Fund BI	10,203,303	-	-	-	Daily	5 days	Fund Level - 20%	N/A	N/A
Total long-only - emerging markets	32,247,531	18,950,495	-	-					

	Fair Value, June 30,		Unfunded Commitments, June 30,		Redemption Frequency (If Currently Eligible)	Redemption Notice Period	Gate	Lock Up Period	Holdback
	2017	2016	2017	2016					
	Equities: (continued)								
Long-only - international:									
Fund T	5,363,072	4,465,329	-	-	Monthly	6 days	N/A	N/A	N/A
Fund AB	39,328,383	31,710,749	-	-	Monthly	6 days	N/A	N/A	N/A
Fund AC	9,575,320	7,540,522	-	-	Monthly	90 days	Master Fund Level - 20%	N/A	N/A
Fund BC	25,284,603	20,092,884	-	-	Quarterly	60 days	Fund Level - 20%	N/A	N/A
Total long-only - international	79,551,378	63,809,484	-	-					
Private equity:									
Fund AF	6,320,842	6,945,995	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AG	4,428,748	4,604,950	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AH	8,076,687	8,913,663	2,095,264	2,151,545	Illiquid	N/A	N/A	N/A	N/A
Fund AI	796,464	696,693	600,000	600,000	Illiquid	N/A	N/A	N/A	N/A
Fund AL	11,086,190	10,042,073	558,639	853,028	Illiquid	N/A	N/A	N/A	N/A
Fund AM	149,161	161,734	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AN	1,998,529	3,041,546	1,039,812	1,039,812	Illiquid	N/A	N/A	N/A	N/A
Fund AP	604,036	373,400	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AQ	1,686,732	12,805,671	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AR	19,741,533	20,112,549	2,999,805	2,999,805	Illiquid	N/A	N/A	N/A	N/A
Fund AS	25,972,947	18,460,317	284,992	2,475,593	Illiquid	N/A	N/A	N/A	N/A
Fund BE	7,218,324	2,427,480	4,567,308	8,142,308	Illiquid	N/A	N/A	N/A	N/A
Fund BF	4,735,997	1,391,990	5,768,792	8,531,833	Illiquid	N/A	N/A	N/A	N/A
Fund BG	4,017,091	553,151	5,950,100	9,446,849	Illiquid	N/A	N/A	N/A	N/A
Fund BH	1,703,510	187,011	1,613,150	1,812,989	Illiquid	N/A	N/A	N/A	N/A
Fund BL	4,512,028	-	687,539	-	Illiquid	N/A	N/A	N/A	N/A
Total private equity	103,048,819	90,718,223	26,165,401	38,053,762					
Fixed-income - global fixed-income fund	24,406,698	15,184,243	-	-	Daily	10 days	N/A	N/A	N/A
Real assets:									
Energy-related hedge funds:									
Fund F	47,655	2,122,584	-	-	Quarterly	90 days	N/A	N/A	N/A
Fund G	3,920	268,943	-	-	Quarterly	90 days	N/A	N/A	N/A
Fund H	9,416,920	11,344,100	-	-	Monthly	30 days	Fund Level - 25%	N/A	5%
Total energy-related hedge funds	9,468,495	13,735,627	-	-					
Private:									
Fund AT	7,470,961	9,096,709	915,117	945,134	Illiquid	N/A	N/A	N/A	N/A
Fund AU	163,491	530,573	1,208,962	1,208,962	Illiquid	N/A	N/A	N/A	N/A
Fund AV	5,346,620	2,923,345	451,721	451,721	Illiquid	N/A	N/A	N/A	N/A
Fund AW	1,718,682	1,851,290	6,086,361	8,047,856	Illiquid	N/A	N/A	N/A	N/A
Fund AX	152,311	1,799,772	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund BJ	1,392,651	-	5,565,397	-	Illiquid	N/A	N/A	N/A	N/A
Fund BM	57,656	-	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund BN	39,500	-	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund BO	2,692	-	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund BP	48,933	-	-	-	Illiquid	N/A	N/A	N/A	N/A
Total private	16,393,497	16,201,689	14,227,558	10,653,673					
	<u>\$ 503,408,589</u>	<u>\$ 500,304,699</u>	<u>\$ 40,392,959</u>	<u>\$ 48,707,435</u>					

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 funds – Fund that 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 that 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 – A fund that invests 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 – A fund that 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 that invests 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.

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 to invest in private real assets. This 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,	
	2017	2016			2017	2016
Assets:						
Closely held stock	\$ 113,085,174	\$ 109,852,090	Market approach	EBITDA multiple (b)	10.27 (10.27)	9.10 (9.10)
				EBITDA transactions (b)	7.9 (7.9)	7.9 (7.9)
				Book multiple (b)	1.88 (1.88)	1.94 (1.94)
			Discounted cash flows	Capitalization of cash flow (a)	6.4% (6.4%)	6.9% (6.9%)
				Discount for lack of marketability (a)	32% (32%)	32% (32%)
Beneficial interest in trusts	12,945,639	12,101,817	Discounted cash flows	Discount rate (a)	0 - 4.36% (1.62%)	0-4.51% (1.56%)
				Expected rate of return (d)	2.4 -9.4% (5.72%)	2.4 -9.4% (5.34%)
Liabilities:						
Funds held on behalf of OSU	6,404,576	5,883,130	Income approach	Present value of future cash outflows (e)	-	-
				Discount rate (a)	0% (0%)	0% (0%)
Funds held on behalf of Cowboy Athletics	130,390	21,556,706	Income approach	Present value of future cash outflows (e)	-	-
				Discount rate (a)	0% (0%)	0% (0%)
Funds held on behalf of OSU Alumni Association	16,478,074	14,622,165	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.

Note 7 – Property and Equipment

Property and equipment consist of the following June 30:

	Useful Life	2017	2016
Foundation Operations			
Land	N/A	\$ 2,383,552	\$ 2,386,301
Buildings and leasehold improvements	10 - 20 years	7,446,241	7,446,241
Equipment	3 - 10 years	3,870,750	3,847,770
Construction in process	N/A	4,737,948	496,937
		<u>18,438,491</u>	<u>14,177,249</u>
Less: accumulated depreciation		<u>6,728,220</u>	<u>6,439,789</u>
Net property and equipment, Foundation operations		11,710,271	7,737,460
Foundation Programs for OSU			
Land	N/A	982,965	926,217
Buildings and leasehold improvements	10 - 20 years	2,264,492	433,295
Equipment	3 - 10 years	7,787	7,787
Construction in process	N/A	-	1,831,196
		<u>3,255,244</u>	<u>3,198,495</u>
Less: accumulated depreciation		<u>247,309</u>	<u>210,868</u>
Net property and equipment, Foundation programs for OSU		<u>3,007,935</u>	<u>2,987,627</u>
Net property and equipment		<u>\$ 14,718,206</u>	<u>\$ 10,725,087</u>

Depreciation expense was approximately \$431,000 and \$473,000 for the years ended June 30, 2017 and 2016, 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 at June 30:

	2017	2016
Cash, investments, interest and other receivables	\$ 14,448,962	\$ 13,246,311
Property and equipment and other property investments	<u>169,178</u>	<u>169,175</u>
Total assets held under split-interest agreements	<u>\$ 14,618,140</u>	<u>\$ 13,415,486</u>
Obligations under split-interest agreements	<u>\$ 9,130,078</u>	<u>\$ 8,937,585</u>

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, 2017 and 2016, was approximately \$0 and \$46,000, 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.

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 revaluations 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% to 10.2% 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:

	<u>2017</u>	<u>2016</u>
Donated land and buildings	\$ 2,168,464	\$ 1,042,000
Other donated assets	383,782	130
Total other property investments	<u>\$ 2,552,246</u>	<u>\$ 1,042,130</u>

Note 10 – Beneficial Interests in Trusts

Beneficial interests in trusts consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Perpetual trusts	\$ 8,130,647	\$ 7,924,011
Charitable remainder trusts	4,814,992	4,177,806
Total beneficial interests in trusts	<u>\$ 12,945,639</u>	<u>\$ 12,101,817</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.

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 are 4.36% and 4.51% at June 30, 2017 and 2016, respectively. Contribution revenue related to these agreements was \$383,072 and \$386,568 for the years ended June 30, 2017 and 2016, respectively.

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 an external management firm engaged by the University, 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 ongoing 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, 2017 and 2016, totaled \$10,326,000 and \$25,000,000, respectively. For the year ending June 30, 2017, the Foundation made distributions of approximately \$28,616,000. There were no distributions to MCPA Foundation in 2016.

Note 12 – Employee Benefit Plan

The Foundation has a defined contribution benefit plan (the Plan) covering all employees who meets eligibility requirements under the Plan. The Foundation contributes between 5% and 11.5% of eligible employees' salaries based on length of service to the Foundation. The Foundation made contributions to the plan of approximately \$1,009,000 and \$1,065,000 during the years ended June 30, 2017 and 2016, 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 \$3,248,000 and \$3,575,000, respectively, for the years ended June 30, 2017 and 2016, of which approximately \$1,601,000 and \$1,876,000 at June 30, 2017 and 2016, respectively, was still outstanding and is included in interest and other receivables in the consolidated statements of financial position.

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. Pursuant to the terms of the custodial and loan agreements, distributions from the agency account on behalf of Cowboy Athletics were \$18,578,274 for the year ended June 30, 2017. 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 approximately \$5,066,000 and \$0, respectively, for the years ended June 30, 2017 and 2016. (In 2017, 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 approximately \$5,066,000, in its consolidated statements of activities.) The Foundation held assets (included in cash and investments) and a corresponding liability of \$130,390 and \$21,556,706 at June 30, 2017 and 2016, 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 nonathletic 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 \$5,404,000 and \$6,530,000 held for the benefit of the Athletic Department to Cowboy Athletics during 2017 and 2016, respectively. These distributions are recognized as Cowboy Athletics program services expense in the consolidated statements of activities.

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 0.90% per annum, adjusted on each day on which a change in LIBOR occurs. The outstanding balance at June 30, 2017, was \$3,480,000 and interest paid for the year ending June 30, 2017, was approximately \$18,000. There were no draws on the line of credit during the year ended June 30, 2016.

Note 15 – Commitments

The Foundation has entered into construction contracts with unrelated parties for the year ended June 30, 2017, in the amount of approximately \$9,413,000, for the construction of a building addition. At June 30, 2017, the outstanding commitment was approximately \$4,731,000. There were no outstanding commitments at June 30, 2016.

Note 16 – Subsequent Events

In July 2017, the Foundation executed an amended loan agreement to obtain an additional \$10 million unsecured revolving line of credit from a financial institution. The maturity date of the loan is July 25, 2022 at a variable 30, 60 or 90 day LIBOR rate, as elected by the Foundation, plus one percent (1%) per annum, adjusted on the last day of each month in which a change in LIBOR occurs.

SUPPLEMENTAL INFORMATION

OKLAHOMA STATE UNIVERSITY FOUNDATION

COMBINING SCHEDULE OF ACTIVITIES – INTERCOLLEGIATE ATHLETIC ACCOUNTS

Year ended June 30, 2017

	Football	Basketball		Other Sports		Athletic Facilities	Nonprogram Specific	Total
		Men's	Women's	Men's	Women's			
Revenues:								
Contributions:								
Cash	\$ 9,358,484	\$ 3,509,361	\$ 147,255	\$ 1,384,363	\$ 386,558	\$ 8,333,612	\$ 1,143,660	\$ 24,263,293
Securities	519,465	533,132	2,509	270,985	508,355	4,613,348	1,006,784	7,454,578
Land, goods, services and other	51,775	1,683	-	42,413	149,664	649	227,752	473,936
Promises to give	-	-	-	30,367,706	-	3,126,063	325,000	33,818,769
Cowboy Athletics	2,735,716	2,330,425	-	-	-	-	-	5,066,141
Provision for uncollectible pledges	-	-	5,979	(2,775,658)	-	531,677	5,912	(2,232,090)
Interest and dividends	31,184	32,239	5,924	50,656	10,157	466,826	135,632	732,618
Net investment gains	308,276	319,135	59,505	502,642	96,567	4,629,212	1,333,135	7,248,472
Other income	12,420	54,555	8,618	18,967	4,531	325,165	13,050	437,306
Reclassifications - donor directed	-	51,943	143,014	-	-	(342,379)	199,365	51,943
Net intercollegiate athletic transfers	(2,353,230)	(1,270,567)	1,180	311,294	(173,293)	2,858,210	687,252	60,846
Total revenues	10,664,090	5,561,906	373,984	30,173,368	982,539	24,542,383	5,077,542	77,375,812
Expenses:								
Program expenses:								
Budget support	14,584	-	75,000	14,600	100,000	5,500,000	-	5,704,184
Scholarship	-	12,984	-	-	-	-	4,690	17,674
General administration	365,774	201,013	54,872	227,207	54,425	6,197,083	930,163	8,030,537
Facilities, equipment and other purchases	-	-	-	1,952	-	1,133	-	3,085
Travel	1,393	54,355	13,277	40,650	28,014	-	251,339	389,028
Distribution of land, goods and services	51,775	1,683	-	42,413	149,664	649	227,752	473,936
Distributions to Cowboy Athletics	171,794	-	-	-	80,000	5,151,818	-	5,403,612
Building and equipment maintenance	34,013	12,661	20,071	9,815	4,177	-	15,394	96,131
Total expenses	639,333	282,696	163,220	336,637	416,280	16,850,683	1,429,338	20,118,187
Change in net assets	10,024,757	5,279,210	210,764	29,836,731	566,259	7,691,700	3,648,204	57,257,625
Net assets, beginning 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
Net assets, end of year	\$ 15,952,004	\$ 9,205,185	\$ 1,481,415	\$ 37,060,145	\$ 1,934,829	\$ 86,967,334	\$ 28,103,905	\$ 180,704,817