THE FOUNDATION
FOR OKLAHOMA CITY PUBLIC SCHOOLS

OKLAHOMA CITY PUBLIC SCHOOLS FOUNDATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2016

WITH

INDEPENDENT AUDITOR'S REPORT

HoganTaylor LLP
CPAs + ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Oklahoma City Public Schools Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Oklahoma City Public Schools Foundation, Inc. (the Foundation) which comprise the statement of financial position as of December 31, 2016, the related statements of activities, functional expenses, and cash flows for the eighteen months then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2016, and changes in its net assets and its cash flows for the eighteen months then ended in accordance with accounting principles generally accepted in the United States of America.

Hogan Taylor LLP

June 13, 2017

**OKLAHOMA CITY PUBLIC
SCHOOLS FOUNDATION, INC.**

STATEMENT OF FINANCIAL POSITION

December 31, 2016

Assets	
Cash	$ 638,379
Pledges receivable	158,465
Investments	1,577,737
Beneficial interest in assets held by others	57,765
Property and equipment, net	9,206
Total assets	$ 2,441,552
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued liabilities	$ 50,044
Pass-through liability	418,008
Total liabilities	468,052
Net assets:	
Unrestricted	782,673
Temporarily restricted	402,386
Permanently restricted	788,441
Total net assets	1,973,500
Total liabilities and net assets	$ 2,441,552

OKLAHOMA CITY PUBLIC SCHOOLS FOUNDATION, INC.

STATEMENT OF ACTIVITIES

Eighteen months ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support				
Contributions	$ 1,222,526	$ 372,019	$ -	$ 1,594,545
In-kind donations	294,436	-	-	294,436
Service fees	16,942	-	-	16,942
Investment income	17,075	28,366	220	45,661
Net unrealized and realized investment gains	29,846	20,138	(2,936)	47,048
Funds released from restrictions	236,548	(236,548)	-	-
Total revenue, gains and other support	1,817,373	183,975	(2,716)	1,998,632
Expenses				
Program services	1,649,324	-	-	1,649,324
Supporting services:				
Management and general	79,653	-	-	79,653
Fundraising	59,995	-	-	59,995
Total expenses	1,788,972	-	-	1,788,972
Change in net assets	28,401	183,975	(2,716)	209,660
Net assets at beginning of period	754,272	218,411	791,157	1,763,840
Net assets at end of period	$ 782,673	$ 402,386	$ 788,441	$ 1,973,500

OKLAHOMA CITY PUBLIC SCHOOLS FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Eighteen months ended December 31, 2016

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Scholarships, grants and awards	$ 606,632	$ -	$ -	$ 606,632
Personnel	440,042	50,953	39,174	530,169
Conferences and meetings	165,492	1,023	8,033	174,548
Professional fees and contractual services	98,175	10,926	5,574	114,675
Advertising and marketing	205,277	-	-	205,277
Bad debt	-	1,437	-	1,437
Training	679	30	28	737
Postage and shipping	2,680	102	1,300	4,082
Materials and supplies	9,161	668	155	9,984
Equipment acquisition	5,566	359	304	6,229
Equipment rental and maintenance	13,348	942	686	14,976
Printing and publication	20,799	416	701	21,916
Occupancy	46,869	2,290	2,172	51,331
Dues and subscriptions	9,060	533	427	10,020
Travel and transportation	4,740	145	84	4,969
Insurance	6,044	12	427	6,483
Depreciation	-	8,721	-	8,721
Telephone	14,760	1,096	930	16,786
Total	$ 1,649,324	$ 79,653	$ 59,995	$ 1,788,972

OKLAHOMA CITY PUBLIC
SCHOOLS FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Eighteen months ended December 31, 2016

Cash Flows from Operating Activities	
Change in net assets	$ 209,660
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	8,721
Bad debt	1,437
Net realized and unrealized investment gains	(47,048)
Changes in operating assets and liabilities:	
Pledges receivable	(77,349)
Other assets	3,306
Accounts payable	41,471
Pass-through liability	321,624
Net cash provided by operating activities	461,822
Cash Flows from Investing Activities	
Purchases of investments	(721,300)
Proceeds from sales of investments	692,053
Proceeds from disposal of property and equipment	430
Purchases of property and equipment	(3,891)
Net cash used in investing activities	(32,708)
Cash Flows from Financing Activities	
Principal payments on line of credit	(64,514)
Net increase in cash	364,600
Cash, beginning of period	273,779
Cash, end of period	$ 638,379

See notes to financial statements.

**OKLAHOMA CITY PUBLIC
SCHOOLS FOUNDATION, INC.**

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Note 1 – Nature of Operations

The Oklahoma City Public Schools Foundation, Inc. (the Foundation) was incorporated in 1984 under the laws of the state of Oklahoma to lead and inspire the building of collaborative partnerships within the community to help develop and implement a shared vision of educational excellence, and to research, create, and implement programs to improve the quality of education for students in all Oklahoma City public schools.

On August 24, 2015, the Board of Directors authorized to change the Foundation's fiscal year-end from June 30 to December 31. The change in fiscal year was made to conform to the reporting periods adopted by the majority of the Foundation's donor base. In accordance with this change, the statements of income, functional expenses, and cash flows cover the period of eighteen months ended December 31, 2016. Because of the nature of the Foundation's operations and program activities, the results of operations for the eighteen months ended December 31, 2016, are not indicative of the results of operations that may be expected for a single fiscal year.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation

The financial statements of the Foundation are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Net assets

The Foundation reports information regarding its financial position and changes in net assets according to three classes of net assets based on the existence or absence of donor-imposed restrictions, as follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted – Net assets whose use is limited by donor-imposed restrictions that either expire with the passage of time or occurrence of specified events or actions. When a restriction has been fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Net assets with restrictions that are met in the same reporting period as their receipt are accounted for as unrestricted net assets.

Permanently restricted – Net assets whose use is limited by donor-imposed restrictions that require such resources be maintained in perpetuity and the related income utilized for operating or other donor-restricted purposes.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. Actual results may vary from those estimates.

Contributions

Contributions, including unconditional promises to give, are recorded when received. All contributions are available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support.

Pledges receivable

Pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts and historical collection experience. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Based upon management's assessment, no allowance for uncollectible pledges receivable was required as of December 31, 2016.

Investments

Investments, including investments restricted for endowment, are held under managerial agency agreements and include money market and mutual funds which are carried at fair value based upon quoted market prices or dealer quotes. Unrealized gains and losses are reported in the statement of activities. Interest and gains earned on investments are considered unrestricted as to their use, unless their use is temporarily or permanently restricted by donor stipulation.

Donated goods and services

The Foundation recognizes the fair value of donated goods and services that either create or enhance a nonfinancial asset or require specialized skills that would need to be purchased if they were not donated.

Volunteers from the community donated a significant amount of time to the Foundation's programs and fundraising campaigns. The value of this time is not reflected in the accompanying financial statements as it does not meet the criteria for recognition.

Property and equipment

Property and equipment is recorded at cost at date of acquisition or estimated fair value at date of donation. Depreciation of these assets is provided on a straight-line basis over the estimated useful lives of the respective assets, which range from five to seven years. Maintenance and repair costs are expensed as incurred.

Income taxes

The Foundation is exempt from federal and state taxes on income related to its exempt purpose under the provisions of Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Functional allocation of expenses

The Statement of Activities presents expenses by functional classification. Expenses are allocated between program and supporting services based upon either actual usage or the estimated cost attributable to each function.

Advertising expense

All advertising costs are expensed as incurred. Advertising expenses were approximately $205,000 for the eighteen months ended December 31, 2016, approximately $200,000 of which was provided in-kind.

Concentrations and risks

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of cash, pledges receivable, and investments. As of December 31, 2016, two donors accounted for approximately 88% of pledges receivable.

The Foundation's investments are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could materially affect the amounts reported in the statements of activities. Significant fluctuations in fair values could occur from year-to-year, and the amounts the Foundation will ultimately realize could differ materially.

The Foundation maintains its cash in accounts which may exceed federally insured amounts. However, it has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

New accounting pronouncements

In February 2016, FASB issued ASU No. 2016-02 *Leases (Topic 842)*. The purpose of the guidance is to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet, as well as providing additional disclosure requirements related to leasing arrangements. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, though early adoption is permitted. The Foundation will be evaluating the impact this standard will have on its financial statements and related disclosures.

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958)*: *Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. The amendments in the standard are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The Foundation will be evaluating the impact this standard will have on its financial statements and related disclosures.

Subsequent events

Management has evaluated subsequent events through June 13, 2017, the date the financial statements were available to be issued.

Note 3 – Investments

Investments consist of the following at December 31, 2016:

Money market funds	$ 123,063
Mutual funds	1,454,674
	$ 1,577,737

Note 4 – Beneficial Interest in Assets Held by Others

The Foundation and other donors have contributed to a fund administered by the Oklahoma City Community Foundation, Inc. (OCCF) for the benefit of the Foundation and its programs. OCCF maintains legal ownership and variance power over the fund. The Foundation is the beneficiary of the Fund and receives distributions from the fund subject to OCCF's investment and spending policies, which is currently 5% of the average market value over the previous 12 quarters for all assets held for the benefit of the Foundation.

The portion of the fund established with contributions from the Foundation for the benefit of the Foundation is considered a reciprocal transfer and is included as an asset (Beneficial interest in assets held by others) and a permanently restricted net asset in the accompanying financial statements. The fair value of assets contributed by others to OCCF for the benefit of the Foundation (third-party funds) is not recognized in the accompanying financial statements.

The fair value of funds held by OCCF for the benefit of the Foundation was $226,657 at December 31, 2016. Of this amount, $57,765 is recognized in the accompanying financial statements as a beneficial interest to the Foundation at December 31, 2016. No contributions were made to the fund in 2016.

Distributions to the Foundation under the OCCF spending policy for the eighteen months ended December 31, 2016, were $22,604, and are included in contribution revenue in the statements of activities.

OCCF also maintains a donor-designated endowment fund for the benefit of a specific program at a school in the Oklahoma City Public Schools district. Distributions from this fund are accounted for under the Foundation's pass-through fund policy (see Note 7).

Note 5 – Line of Credit

The Foundation has available a line of credit from a financial institution which provides for borrowings up to $150,000 to fund short-term operating cash flow requirements. Advances under the line of credit are secured by mutual funds and bear interest at a variable rate, payable monthly. The line of credit expires on September 23, 2017. At December 31, 2016, there was no outstanding balance on this line of credit.

Note 6 – Endowment Funds

Board interpretation

The Foundation's Board of Directors (the Board) interprets the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of 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, 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 appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- Donor intent as expressed in the applicable agreement
- 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

Return objectives, risk parameters, strategies and spending policy

The principal goal of the Foundation's investment program is to administer and invest funds received from donors in a prudent manner. The Foundation has adopted an investment policy for endowment assets designed to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Endowment assets are invested in a manner that is intended, over the long term, to:

- Enhance the total value of the endowment through appreciation, contributions, and/or the reinvestment of excess current earnings
- Preserve capital and avoid the risk of large loss
- Maintain sufficient liquidity to provide for all anticipated withdrawals and to invest in issues with sufficient marketability to provide for unexpected withdrawals

The overall financial objective is to maximize the risk-adjusted investment return while maintaining adequate levels of liquidity. The Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Risk of large losses is minimized by a diversified asset allocation. The current investment strategic allocation target guidelines of 60% equities, 35% fixed income, and 5% cash and cash equivalents, is expected to achieve the long-term return objectives within prudent risk constraints.

The distribution policy determined annually by the Board provides for distribution from the funds based on available earnings and anticipated funding needs consistent with the objectives outlined above, subject to limits specified by the endowment agreements.

The Foundation's endowment includes the following funds:

- Jean G. Gumerson Endowment. This fund includes board-designated and donor-restricted amounts to provide earnings for tuition assistance to support national board certification for district teachers. Effective June 30, 2015, the Board and donors approved to amend the Gumerson endowment to support the Urban Teacher Prep Academy.

- Kenneth Donald Burke Endowment. This endowment fund is a permanent, donor-restricted fund to provide earnings for scholarship assistance to outstanding graduating scholar/athletes of Northwest Classen High School.
- Marie W. Leonard Endowment. This endowment fund is a permanent, donor-restricted fund to provide earnings for reading and mentoring programs of the Foundation.
- Endowment funds held by the OCCF (see Note 4).

The Foundation's endowment net asset composition by type at December 31, 2016, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 233,738	$ 788,441	$ 1,022,179
Board-designated endowment funds	493,585	-	-	493,585
Total	$ 493,585	$ 233,738	$ 788,441	$ 1,515,764

Changes in endowment funds consist of the following for the eighteen months ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment fund net assets at June 30, 2015	$ 490,290	$ 218,411	$ 791,157	$ 1,499,858
Investment return:				
Investment income, net	16,296	28,366	220	44,882
Net appreciation	11,459	20,138	(2,936)	28,661
Total investment return	27,755	48,504	(2,716)	73,543
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	(24,460)	(33,177)	-	(57,637)
Endowment fund net assets at December 31, 2016	$ 493,585	$ 233,738	$ 788,441	$ 1,515,764

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature that are reported in unrestricted net assets at December 31, 2016.

Note 7 – Pass-Through Transactions

The Foundation receives and distributes funds for schools in the Oklahoma City Public Schools district under a school project fund policy and related agreements. These project funds are referred to as pass-through funds and are segregated from net assets of the Foundation. To be eligible for a pass-through fund, projects must be consistent with the mission, general charitable purpose and tax exempt status of the Foundation, among other requirements. Since the Foundation does not have variance power over the use of pass-through funds, related receipts and disbursements are not recognized as revenue or expense in the statement of activities. The Foundation assesses a 3% administrative fee on funds for the direct and indirect costs incurred to accept, manage and administer pass-through funds.

During the eighteen months ended December 31, 2016, the Foundation received approximately $722,020 and distributed approximately $400,396 of pass-through fund transactions. The Foundation held $418,008 in pass-through funds at December 31, 2016, which is reflected as a liability in the statement of financial position.

Note 8 – DonorsChoose Partnership Program

In 2014, the Foundation entered into an agreement with DonorsChoose.org (DonorsChoose) to raise funds for classroom projects in Oklahoma City Public Schools. The agreement was renewed throughout the eighteen months ended December 31, 2016. In connection with this program, the Foundation contributed $250,000 in the eighteen months ended December 31, 2016, to DonorsChoose to be used to match amounts contributed through public funding, which is included in program services in the statement of activities. Public campaign contributions made directly to DonorsChoose are not reflected in the statement of activities. The agreement with DonorsChoose was renewed again in January 2017.

Note 9 – Restrictions on Net Assets

Unrestricted net assets include $493,585 designated by the Foundation's Board of Directors for the Gumerson endowment at December 31, 2016 (see Note 6).

Temporarily restricted net assets, including amounts available for expenditure from endowments, are available for the following at December 31, 2016:

Restricted for purpose:	
Urban teacher preparation academy	$ 185,535
Bilingual teacher pipeline project	54,050
Scholarships	29,905
Other programs	18,299
	287,789
Restricted for use in future period	114,597
Total	$ 402,386

Permanently restricted net assets of $788,441 at December 31, 2016, include funds held in the Foundation's endowment to support Foundation programs (see Note 6).

Note 10 – Fair Value Measurements

The Financial Accounting Standards Board Accounting Standards Codification established a consistent framework for measuring the fair value and fair value hierarchy based on the observability of inputs used to measure fair value.

These inputs are summarized in the three broad levels listed below:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset or liability's 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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

During the eighteen months ended December 31, 2016, there were no transfers of financial instruments between Level 1 and Level 2 or transfers into or out of Level 3. The following is a description of the valuation methodologies used for assets measured at fair value:

Money market funds – the fair value approximates the carrying value. These investments are classified within Level 1.

Mutual funds – amount consists of multi-asset income funds which are valued using quoted market prices. These investments are classified within Level 1.

Beneficial interests in assets held by OCCF – Beneficial interest in assets held by others (Beneficial Interest) is measured at fair value using Level 2 inputs. Since OCCF maintains variance power for the beneficial interests it holds, there is no potential market for the beneficial interest or similar assets. Consequently, the valuation is determined by aggregating the valuation of the underlying investments of the beneficial interest. The underlying investments include cash equivalents, corporate obligations, equity securities and other investments. The fair values of the underlying investments are based on quoted prices from active and inactive markets.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets that are measured at fair value on a recurring basis at December 31, 2016:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 123,063	$ -	$ -	$ 123,063
Mutual funds	1,454,674	-	-	1,454,674
Beneficial interest in assets held by others	-	57,765	-	57,765
Total assets at fair value	$ 1,577,737	$ 57,765	$ -	$ 1,635,502

Note 11 – Retirement Plan

All full-time employees are eligible to participate in the retirement plan on the first day of the first quarter after employment. The Foundation makes contributions to the plan equal to 5% of employee compensation. During the eighteen months ended December 31, 2016, Foundation contributions to the plan totaled $20,842.

Note 12 – Leases

The Foundation is obligated on lease agreements for facility space and office equipment, which are classified as operating leases. Operating lease expense totaled approximately $33,500 for the eighteen months ended December 31, 2016. The facility lease agreement provides for three five-year renewal options at set rates per the agreement. In the normal course of business, operating leases are generally renewed or replaced by other leases.

Future minimum lease payments are as follows:

Year ending December 31	Amount
2017	$ 24,908
2018	24,908
2019	24,908
2020	25,282
2021	26,403
Thereafter	99,009
	$ 225,418

Note 13 – Subsequent Event

On February 1, 2017, the Foundation received a pledge of $750,000 to be paid over a five-year period through December 31, 2021, with payments of $75,000 made semi-annually. The contribution is designated by the donor to be used for normal operating expenses and costs of special programs of the Foundation.