



OKLAHOMA STATE UNIVERSITY FOUNDATION

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2018 and 2017

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 statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma State University Foundation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 26, 2018

OKLAHOMA STATE UNIVERSITY FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 4,580,483	\$ 7,607,411
Investments	992,604,879	923,756,172
Contributions receivable, net	91,169,374	83,975,250
Interest and other receivables	12,243,569	2,651,661
Other property investments	708,854	2,552,246
Property and equipment, net	20,662,336	14,718,206
Beneficial interests in trusts	15,172,459	12,945,639
Other assets	3,231,965	3,639,639
	<u>\$ 1,140,373,919</u>	<u>\$ 1,051,846,224</u>
Total assets		
Liabilities and Net Assets		
Liabilities:		
Oklahoma State University support payable	\$ 1,177,045	\$ 2,552,846
Accounts payable and accrued liabilities	2,312,814	2,446,630
Funds held on behalf of Oklahoma State University	6,696,790	6,404,576
Funds held on behalf of Cowboy Athletics	-	130,390
Funds held on behalf of Oklahoma State University Alumni Association	17,324,304	16,478,074
Funds held on behalf of Foundation for the McKnight Center for the Performing Arts	4,802,518	-
Obligations under split-interest agreements	11,499,368	9,130,078
Unearned revenue	278,500	332,500
Line of credit	21,239,078	3,480,000
	<u>65,330,417</u>	<u>40,955,094</u>
Total liabilities		
Net assets:		
Unrestricted	396,586,185	369,640,486
Temporarily restricted	201,129,637	188,714,773
Permanently restricted	477,327,680	452,535,871
	<u>1,075,043,502</u>	<u>1,010,891,130</u>
Total net assets		
Total liabilities and net assets	<u>\$ 1,140,373,919</u>	<u>\$ 1,051,846,224</u>

OKLAHOMA STATE UNIVERSITY FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2018

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

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, gains and support					
Contributions:					
Cash	\$ 41,410,055	\$ 5,391,665	\$ 13,411,845	\$ 60,213,565	\$ 54,599,654
Securities	1,618,309	1,907,216	2,432,691	5,958,216	10,063,133
Land, goods, services and other	2,182,232	446,750	-	2,628,982	3,987,133
Promises to give	(76,993)	26,378,547	3,612,999	29,914,553	55,172,027
Cowboy Athletics	8,108,907	-	-	8,108,907	5,066,142
Total contributions	53,242,510	34,124,178	19,457,535	106,824,223	128,888,089
Provision for uncollectible pledges	-	(1,451,236)	43,376	(1,407,860)	(2,470,166)
Interest and dividends, net	3,027,048	2,058,533	-	5,085,581	6,572,165
Net investment gains	12,536,571	43,734,221	6,412,630	62,683,422	77,996,914
Contract support services	2,666,750	-	-	2,666,750	3,247,808
Net gains (losses) on disposals of property and equipment and other property investments	(552,613)	128,034	-	(424,579)	(76,053)
Management fee income (loss)	8,292,191	(8,117,388)	-	174,803	812,043
Change in value of split-interest agreements	93,451	329,031	(1,248,936)	(826,454)	827,663
Other income	3,609,516	(4,377)	(28,595)	3,576,544	570,070
Reclassifications - donor directed	3,560,724	(3,716,523)	155,799	-	-
Net assets released from restrictions	54,669,609	(54,669,609)	-	-	-
Total revenues, gains and support	141,145,757	12,414,864	24,791,809	178,352,430	216,368,533
Expenses					
Program services:					
Intercollegiate athletics	13,208,545	-	-	13,208,545	13,242,539
Cowboy Athletics	22,023,921	-	-	22,023,921	5,403,612
Library	339,514	-	-	339,514	740,732
Research	897,961	-	-	897,961	1,275,262
General University support	15,171,543	-	-	15,171,543	46,668,427
Awards and scholarships	15,920,484	-	-	15,920,484	17,290,589
Endowed faculty and lectureship programs	6,616,325	-	-	6,616,325	6,785,457
Facilities and equipment	18,893,954	-	-	18,893,954	17,603,591
Total program services	93,072,247	-	-	93,072,247	109,010,209
Management and general	6,915,880	-	-	6,915,880	5,823,935
Fundraising	14,190,442	-	-	14,190,442	13,771,744
Charitable legacy distributions	21,489	-	-	21,489	34,737
Total expenses	114,200,058	-	-	114,200,058	128,640,625
Change in net assets	26,945,699	12,414,864	24,791,809	64,152,372	87,727,908
Net assets, beginning of year	369,640,486	188,714,773	452,535,871	1,010,891,130	923,163,222
Net assets, end of year	\$ 396,586,185	\$ 201,129,637	\$ 477,327,680	\$ 1,075,043,502	\$ 1,010,891,130

OKLAHOMA STATE UNIVERSITY FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and support				
Contributions:				
Cash	\$ 41,734,096	\$ 4,905,411	\$ 7,960,147	\$ 54,599,654
Securities	3,071,901	5,155,847	1,835,385	10,063,133
Land, goods, services and other	3,742,344	44,789	200,000	3,987,133
Promises to give	-	52,579,664	2,592,363	55,172,027
Cowboy Athletics	5,066,142	-	-	5,066,142
Total contributions	53,614,483	62,685,711	12,587,895	128,888,089
Provision for uncollectible pledges	-	(2,438,566)	(31,600)	(2,470,166)
Interest and dividends, net	2,870,327	3,701,838	-	6,572,165
Net investment gains (losses)	40,872,396	44,103,962	(6,979,444)	77,996,914
Contract support services	3,247,808	-	-	3,247,808
Net gains (losses) on disposals of property and equipment and other property investments	(76,162)	109	-	(76,053)
Management fee income	9,418,761	(8,606,718)	-	812,043
Change in value of split-interest agreements	86,911	270,227	470,525	827,663
Other income	496,540	(26,240)	99,770	570,070
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
Expenses				
Program services:				
Intercollegiate athletics	13,242,539	-	-	13,242,539
Cowboy Athletics	5,403,612	-	-	5,403,612
Library	740,732	-	-	740,732
Research	1,275,262	-	-	1,275,262
General University support	46,668,427	-	-	46,668,427
Awards and scholarships	17,290,589	-	-	17,290,589
Endowed faculty and lectureship programs	6,785,457	-	-	6,785,457
Facilities and equipment	17,603,591	-	-	17,603,591
Total program services	109,010,209	-	-	109,010,209
Management and general	5,823,935	-	-	5,823,935
Fundraising	13,771,744	-	-	13,771,744
Charitable legacy distributions	34,737	-	-	34,737
Total expenses	128,640,625	-	-	128,640,625
Change in net assets	63,145,336	17,224,894	7,357,678	87,727,908
Net assets, beginning of year	306,495,150	171,489,879	445,178,193	923,163,222
Net assets, end of year	\$ 369,640,486	\$ 188,714,773	\$ 452,535,871	\$ 1,010,891,130

See notes to consolidated financial statements.

OKLAHOMA STATE UNIVERSITY FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 64,152,372	\$ 87,727,908
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net investment gains	(62,683,422)	(77,996,914)
Change in value of split-interest agreements	826,454	(827,663)
Losses on disposals of property and equipment and other property investments	424,579	76,053
Contributions restricted for long-term investment, cash	(15,540,388)	(10,183,307)
Contributions restricted for long-term investment, securities	(2,432,691)	(1,835,385)
Contributions restricted for long-term investment, land, goods, services and other	-	(200,000)
Noncash distributions	3,404,062	3,603,482
Noncash contributions	(8,478,509)	(13,985,866)
Proceeds from sales of donated financial assets	2,105,614	7,235,968
Depreciation expense	635,169	431,338
Change in discount on contributions receivable	591,896	228,561
Provision for uncollectible pledges	1,407,860	2,470,166
Changes in operating assets and liabilities:		
Contributions receivable, net	(9,193,880)	(28,010,421)
Interest and other receivables	(9,591,908)	(263,804)
Other assets	407,674	(60,067)
Oklahoma State University support payable	(1,375,801)	(5,523,689)
Accounts payable and accrued liabilities	(133,816)	338,622
Funds held on behalf of Oklahoma State University	292,214	521,446
Funds held on behalf of Cowboy Athletics	(130,390)	(21,426,316)
Funds held on behalf of Oklahoma State University Alumni Association	846,230	1,855,909
Funds held on behalf of Foundation for the McKnight Center for the Performing Arts	4,802,518	-
Obligations under split-interest agreements	1,208,100	720,545
Unearned revenue	(54,000)	304,000
	(28,510,063)	(54,799,434)
Net cash used in operating activities		
Cash Flows from Investing Activities		
Purchase of investments	(181,798,234)	(231,233,830)
Proceeds from sales and maturities of investments	177,593,467	278,636,858
Proceeds from sale of other property investments	25,000	32,290
Purchases of other property investments	-	(1,198,464)
Note receivable distribution	875,000	-
Proceeds from sale of property and equipment	644,655	124,589
Purchases of property and equipment	(7,588,910)	(4,585,388)
	(10,249,022)	41,776,055
Net cash (used in) provided by investing activities		
Cash Flows from Financing Activities		
Contributions restricted for long-term investment	17,973,079	12,218,692
Proceeds from line of credit	17,759,078	3,480,000
	35,732,157	15,698,692
Net cash provided by financing activities		
Net (decrease) increase in cash and cash equivalents	(3,026,928)	2,675,313
Cash and cash equivalents at beginning of year	7,607,411	4,932,098
	\$ 4,580,483	\$ 7,607,411

See notes to consolidated financial statements.

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

Years ended June 30, 2018 and 2017

	2018	2017
Supplemental Disclosures of Cash Flow Information		
Interest paid	\$ 202,727	\$ 7,112
Noncash transfers of other property investments to Oklahoma State University	\$ 3,165,221	\$ 3,603,482
Donated securities	\$ 4,377,253	\$ 9,661,157
Donation of beneficial interest	\$ (1,580,963)	\$ 337,575
Donated other property investments	\$ 2,520,293	\$ 3,987,134
Donated services provided for the benefit of Oklahoma State University	\$ 108,689	\$ 64,400
Finance sale of other property investment	\$ 875,000	\$ -

OKLAHOMA STATE UNIVERSITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

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 5,300 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 uncollectible 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 thereof 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, 2018 or 2017.

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, 2018 or 2017.

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.

In fiscal year 2017, the Foundation was 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 were available for distribution to Cowboy Athletics upon request. No funds were held in custody for Cowboy Athletics at June 30, 2018.

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.

Funds held on behalf of Foundation for the McKnight Center for the Performing Arts

The liability represents assets held on behalf of the Foundation for the McKnight Center for the Performing Arts 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 Foundation for the McKnight Center for the Performing Arts liability. The related assets are distributable 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 \$28,000 and \$17,000 to University accounts and distributed assets totaling approximately \$21,000 and \$35,000 to other not-for-profit organizations from these donor-advised funds during the years ended June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, the Foundation held charitable legacy fund assets totaling approximately \$1,485,000 and \$1,265,000, 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 his/her 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 five donors totaling approximately \$18,158,000 and \$41,887,000 in the years ended June 30, 2018 and 2017, respectively. These contributions represent approximately 18% and 34% of total contribution revenue in 2018 and 2017, respectively. Net contributions receivable totaling approximately \$52,745,000 and \$43,997,000 are due from eight donors and seven donors at June 30, 2018 and 2017, respectively. These receivables represent approximately 58% and 52% of total net contributions receivable at June 30, 2018 and 2017, respectively.

The Foundation has a closely held stock that represents approximately 10% and 12% of the total investment balance at June 30, 2018 and 2017, respectively.

Income taxes

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

Accounting for uncertain tax positions

The ASC provides guidance on the accounting for uncertainty in income taxes. This guidance requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. 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, 2014.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP 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 collectibility 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, Cowboy Athletics and Foundation for the McKnight Center for the Performing Arts. The Foundation has no assets or liabilities carried at fair value on a nonrecurring basis at June 30, 2018 and 2017.

Recent accounting pronouncements

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 is permitted. Contributions to not-for-profit entities are 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 26, 2018, the date the consolidated financial statements were available to be issued.

Note 2 – Investments

Investments consisted of the following at June 30:

	2018	2017
Marketable securities:		
Fixed-income:		
Cash and short-term funds	\$ 83,391,953	\$ 52,324,889
Global fixed-income mutual funds	68,869,151	46,195,509
U.S. fixed-income mutual funds	774,890	562,450
Equity:		
Long-only - domestic	54,891,933	103,089,346
Long-only - emerging markets	738,868	12,515,866
Long-only - global	1,925,462	1,597,525
Long-only - international	76,866,786	57,710,650
Real asset securities - public	16,062,045	33,266,174
Total marketable securities	303,521,088	307,262,409

	2018	2017
Nonmarketable securities:		
Equity:		
Hedged equity - credit related	65,020,954	37,621,929
Hedged equity - fund of funds	818,183	818,183
Hedged equity - multistrategy funds	186,926	278,937
Hedged equity - long/short funds	101,893,948	101,446,307
Hedged equity - diversifiers	104,347,458	67,503,418
Hedged equity - event driven	35,275,555	30,623,397
Long-only - emerging markets	29,534,383	32,247,531
Long-only-international	71,036,263	79,551,378
Global equity futures	3,056,358	-
Private equity	135,104,344	103,048,819
Fixed-income - global fixed-income fund	24,077,368	24,406,698
Real assets:		
Energy-related hedge funds	-	9,468,495
Private funds	20,308,402	16,393,497
Closely held stock	98,423,649	113,085,174
Total nonmarketable securities	<u>689,083,791</u>	<u>616,493,763</u>
Total investments	<u>\$ 992,604,879</u>	<u>\$ 923,756,172</u>

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

	2018	2017
Interest and dividends	\$ 9,190,061	\$ 9,432,871
Investment fees	(4,104,480)	(2,860,706)
Interest and dividends, net	<u>\$ 5,085,581</u>	<u>\$ 6,572,165</u>
	2018	2017
Net realized gains on investments carried at fair value	\$ 34,423,840	\$ 45,035,336
Net unrealized gains on investments carried at fair value	27,948,461	32,754,942
Change in fair value of perpetual trusts	311,121	206,636
Net investment gains	<u>\$ 62,683,422</u>	<u>\$ 77,996,914</u>

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:

	2018	2017
Contributions receivable in:		
Less than one year	\$ 21,582,715	\$ 20,242,061
One year to five years	45,060,256	46,792,910
Over five years	45,984,422	37,120,335
	<u>112,627,393</u>	<u>104,155,306</u>
Less:		
Unamortized discount (2.25% - 8.37%)	12,747,401	12,155,505
Allowance for uncollectible pledges	8,710,618	8,024,551
	<u>\$ 91,169,374</u>	<u>\$ 83,975,250</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:

	2018	2017
Temporarily restricted:		
Intercollegiate athletics	\$ 51,892,139	\$ 45,817,525
General University support	9,502,471	9,654,500
Awards and scholarships	2,219,879	2,602,384
Facilities and equipment	21,642,234	21,108,277
Other	11,510	479,045
	<u>85,268,233</u>	<u>79,661,731</u>
Permanently restricted:		
Intercollegiate athletics	285,340	325,720
General University support	1,224,377	1,192,099
Awards and scholarships	3,049,486	2,441,014
Endowed faculty and lectureship programs	1,217,363	310,578
Other	124,575	44,108
	<u>5,901,141</u>	<u>4,313,519</u>
	<u>\$ 91,169,374</u>	<u>\$ 83,975,250</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 consist of the following at June 30:

	2018	2017
Interest and other receivables:		
Receivable from OSU	\$ 10,050,869	\$ 1,601,059
Other receivables	2,192,700	1,050,602
	<u>\$ 12,243,569</u>	<u>\$ 2,651,661</u>

Interest and other receivables are expected to be collected in:

	2018	2017
Less than one year	\$ 11,368,569	\$ 2,651,661
One to five years	875,000	-
	<u>\$ 12,243,569</u>	<u>\$ 2,651,661</u>

Note 4 – Net Assets

Unrestricted net assets consist of the following at June 30:

	2018	2017
Designated for the University:		
Intercollegiate athletics	\$ 130,987,683	\$ 111,691,611
Library	1,631,985	1,383,154
Research	3,177,819	2,856,706
General University support	155,865,649	165,150,969
Awards and scholarships	49,062,450	45,428,618
Endowed faculty and lectureship positions (a)	5,831,546	4,781,602
Facilities and equipment	16,696,923	16,483,008
Charitable legacy fund	1,485,460	1,265,455
	<u>364,739,515</u>	<u>349,041,123</u>
Designated for the Foundation (b):		
Invested in property and equipment (c)	20,662,336	14,718,206
Gains (losses) on short-term investment funds (d)	6,271,529	(934,972)
OSU foundation reserves and general support (e)	4,912,805	6,816,129
	<u>31,846,670</u>	<u>20,599,363</u>
	<u>\$ 396,586,185</u>	<u>\$ 369,640,486</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:

	2018	2017
Temporarily restricted:		
Intercollegiate athletics	\$ 61,011,434	\$ 56,431,465
Library	1,265,134	951,322
Research	200,263	309,544
General University support	23,784,058	24,344,984
Awards and scholarships	48,397,459	38,750,661
Endowed faculty and lectureship programs	29,162,645	23,157,096
Facilities and equipment	37,200,826	44,769,701
OSU Foundation reserves and general support	107,818	-
	<u>\$ 201,129,637</u>	<u>\$ 188,714,773</u>
Permanently restricted:		
Intercollegiate athletics	\$ 11,734,329	\$ 12,581,741
Library	5,589,265	4,908,785
Research	4,221,520	4,218,038
General University support	25,976,869	23,187,863
Awards and scholarships	218,607,535	204,718,120
Endowed faculty and lectureship programs	206,054,935	197,787,184
Facilities and equipment	4,798,655	4,789,568
OSU Foundation reserves and general support	344,572	344,572
	<u>\$ 477,327,680</u>	<u>\$ 452,535,871</u>

Note 5 – Endowment Disclosures

The Foundation's endowment consists of approximately 3,700 and 3,200 funds at June 30, 2018 and 2017, 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, 2018, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (231,574)	\$ 77,741,850	\$ 457,782,971	\$ 535,293,247
Board-designated endowment funds	107,573,310	-	-	107,573,310
Total endowment funds	\$ 107,341,736	\$ 77,741,850	\$ 457,782,971	\$ 642,866,557

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	\$ 92,496,874	\$ 59,274,042	\$ 434,909,590	\$ 586,680,506

Changes in endowment net assets for the year ended June 30, 2018, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 92,496,874	\$ 59,274,042	\$ 434,909,590	\$ 586,680,506
Investment return:				
Interest and dividends	822,079	4,544,550	-	5,366,629
Investment fees	(502,828)	(2,532,413)	-	(3,035,241)
Net realized and unrealized gains (losses)	10,218,904	41,936,946	6,101,509	58,257,359
Total investment return	10,538,155	43,949,083	6,101,509	60,588,747
Donor-restricted additions:				
Current-year endowment contributions transferred	-	-	13,347,102	13,347,102
Collection of current- and prior-year pledges	-	-	1,995,794	1,995,794
Transfers of prior-year contributions	-	-	1,224,668	1,224,668
Total donor-restricted additions	-	-	16,567,564	16,567,564
Management fee	(1,603,283)	(7,963,251)	-	(9,566,534)
Appropriation of endowment assets for expenditure	(2,560,370)	(18,070,056)	-	(20,630,426)
Reinvestment of amounts appropriated	-	984,184	-	984,184
Reclassification-donor directed	(1,099,618)	(328,117)	204,308	(1,223,427)
Transfers to Board-designated and donor-restricted endowment funds	9,569,978	(104,035)	-	9,465,943
Endowment net assets, end of year	<u>\$ 107,341,736</u>	<u>\$ 77,741,850</u>	<u>\$ 457,782,971</u>	<u>\$ 642,866,557</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 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	\$ 92,496,874	\$ 59,274,042	\$ 434,909,590	\$ 586,680,506

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 \$231,574 and \$1,628,355 at June 30, 2018 and 2017, 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 June of the prior fiscal year to June 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 2018 and 2017, if an endowment account's market value at June 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 June 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 \$20,630,426 and \$23,715,963 for the years ended June 30, 2018 and 2017, 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. It is 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, OSU Alumni Association and Foundation for the McKnight Center for the Performing Arts are prepared by the Foundation's accounting department and approved by the Board of Trustees during its 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, Cowboy Athletics and Foundation for the McKnight Center for the Performing Arts

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, Cowboy Athletics and Foundation for the McKnight Center for the Performing Arts. The specific assets held have been classified within the hierarchy for investments (as discussed above) or are cash and cash equivalents. The related and associated liability is classified as Level 3 in the hierarchy as there is no market for a similar liability and 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, 2018, as follows:

	Total	Level 1	Level 2	Level 3
Assets:				
Marketable securities:				
Fixed-income:				
Cash and short-term funds	\$ 83,391,953	\$ 83,391,953	\$ -	\$ -
Global fixed-income mutual funds	68,869,151	68,869,151	-	-
U.S. fixed-income mutual funds	774,890	774,890	-	-
Equities:				
Long-only - domestic	54,891,933	54,891,933	-	-
Long-only - emerging markets	738,868	738,868	-	-
Long-only - global	1,925,462	1,925,462	-	-
Long-only - international	76,866,786	76,866,786	-	-
Real asset securities - public	16,062,045	16,062,045	-	-
Total marketable securities	303,521,088	303,521,088	-	-
Nonmarketable securities:				
Nonmarketable securities at NAV (a)	590,660,142			
Closely held stock	98,423,649	-	-	98,423,649
Total nonmarketable securities	689,083,791	-	-	98,423,649
Total investments	992,604,879	303,521,088	-	98,423,649
Beneficial interests in trusts	15,172,459	-	-	15,172,459
Total assets	\$1,007,777,338	\$ 303,521,088	\$ -	\$ 113,596,108
Liabilities:				
Funds held on behalf of OSU	\$ 6,696,790	\$ -	\$ -	\$ 6,696,790
Funds held on behalf of Foundation for the McKnight Center for the Performing Arts	4,802,518	-	-	4,802,518
Funds held on behalf of OSU Alumni Association	17,324,304	-	-	17,324,304
Total liabilities	\$ 28,823,612	\$ -	\$ -	\$ 28,823,612

(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, 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)	503,408,589			
Closely held stock	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.

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	Funds Held on Behalf of Foundation for the McKnight Center for the Performing Arts
Balance at July 1, 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	-
Net realized and unrealized gains included in earnings	(13,361,400)	311,121	501,683	-	1,711,480	116,739
Distributions	-	(44,149)	(209,469)	(130,390)	(1,553,750)	(1,821,826)
Contributions	-	1,625,112	-	-	688,500	6,507,605
Change in value of split-interests	-	334,736	-	-	-	-
Sales of investments	(1,300,125)	-	-	-	-	-
Balance at June 30, 2018	<u>\$ 98,423,649</u>	<u>\$ 15,172,459</u>	<u>\$ 6,696,790</u>	<u>\$ -</u>	<u>\$ 17,324,304</u>	<u>\$ 4,802,518</u>

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, Cowboy Athletics or Foundation for the McKnight Center for the Performing Arts 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:

	2018	2017
Total gains for the period included in change in net assets	<u>\$ (13,050,279)</u>	<u>\$ 4,740,004</u>
Change in unrealized gains for the period included in change in net assets for assets held at the end of the reporting period	<u>\$ (13,050,279)</u>	<u>\$ 4,740,004</u>

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, the fair value of the derivative assets is \$95,793. At June 30, 2018 and 2017, the fair value of the derivative liabilities is \$358,855 and \$205,439, respectively. The net value of \$(358,855) and \$(109,646) is included in investments in the statement of financial position (Global equity futures 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
	2018	2017	2018	2017					
Equities:									
Hedged equity - credit-related:									
Fund L	\$ 21,987,094	\$ 19,676,495	\$ -	\$ -	Quarterly	60 days	Master Fund Level - 25%	N/A	10%
Fund Q	18,918,357	17,945,434	-	-	Quarterly	85 days	Investor Level - 25%	N/A	5%
Fund BQ	16,131,503	-	-	-	Quarterly	60 days	Master Fund Level - 20%	1 Year - Soft Lock	
Fund BR	7,984,000	-	-	-	Quarterly	90 days	Investor Level - 25%	1 Year - Hard Lock	1
Total hedged equity - credit-related	65,020,954	37,621,929	-	-					
Hedged equity - fund of funds	818,183	818,183	-	-	Quarterly	90 days	N/A	N/A	10%
Hedged equity - multi-strategy funds	186,926	278,937	-	-	Illiquid	N/A	N/A	N/A	N/A
Hedged equity - long/short funds:									
Fund M	27,932,974	23,262,203	-	-	Quarterly	60 days	Investor Level - 20%	3 Years - Hard Lock	5%
Fund O	13,918,240	13,745,998	-	-	Quarterly	45 days	N/A	N/A	5%
Fund R	-	586,371	-	-	Quarterly	60 days	N/A	N/A	5%
Fund X	18,331,293	16,698,047	-	-	Quarterly	45 days	N/A	N/A	5%
Fund Z	22,889,991	21,448,460	-	-	Quarterly	60 days	Master Fund Level - 33%	N/A	5%
Fund AE	18,821,450	17,735,075	-	-	Quarterly	45 days	Investor Level - 25%	N/A	5%
Fund BD	-	7,970,153	-	-	Quarterly	60 days	Investor Level - 25%	N/A	5%
Total hedged equity - long/short funds	101,893,948	101,446,307	-	-					
Hedged equity - diversifiers:									
Fund A	18,342,720	16,087,398	-	-	Monthly	60 days	Master Fund Level - 20%	N/A	10%
Fund E	6,279,232	6,247,539	-	-	Monthly	30 days	Fund Level - 25%	N/A	N/A
Fund J	21,185,886	17,452,606	-	-	Quarterly	45 days	Fund Level - 10%	N/A	N/A
Fund N	16,930,688	17,643,456	-	-	Quarterly	90 days	N/A	N/A	10%
Fund BK	9,340,425	10,072,419	-	-	Quarterly	65 days	N/A	1 Year - Soft Lock	5%
Fund BS	14,891,352	-	-	-	Monthly	60 days	N/A	1 Year - Soft Lock	5%
Fund BT	17,377,155	-	-	-	Monthly	14 days	N/A	N/A	N/A
Total hedged equity - diversifiers	104,347,458	67,503,418	-	-					
Hedged equity - event-driven:									
Fund W	24,137,174	19,261,114	-	-	Biennial	90 days	N/A	2 Years - Hard Lock	5%
Fund BB	11,138,381	11,362,283	-	-	Quarterly	65 days	Investor Level - 25%	N/A	5%
Total hedged equity - event-driven	35,275,555	30,623,397	-	-					
Long-only - emerging markets:									
Fund B	754,711	16,907,059	-	-	Daily	28 days	N/A	N/A	N/A
Fund C	4,838,403	5,137,169	-	-	Daily	28 days	N/A	N/A	N/A
Fund BI	14,209,334	10,203,303	-	-	Daily	5 days	Fund Level - 20%	N/A	N/A
Fund BV	9,731,935	-	-	-	Quarterly	45 days	N/A	3 Years - Hard Lock	N/A
Total long-only - emerging markets	29,534,383	32,247,531	-	-					
Equities: (continued)									
Long-only - international:									
Fund T	-	5,363,072	-	-	Monthly	6 days	N/A	N/A	N/A
Fund AB	41,865,196	39,328,383	-	-	Monthly	6 days	N/A	N/A	N/A
Fund AC	-	9,575,320	-	-	Monthly	90 days	Master Fund Level - 20%	N/A	N/A
Fund BC	29,171,067	25,284,603	-	-	Quarterly	60 days	Fund Level - 20%	N/A	N/A
Total long-only - international	71,036,263	79,551,378	-	-					

	Fair Value, June 30,		Unfunded Commitments, June 30,		Redemption Frequency (If Currently Eligible)	Redemption Notice Period	Gate	Lock Up Period	Holdback
	2018	2017	2018	2017					
Private equity:									
Fund AF	5,615,160	6,320,842	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AG	2,962,234	4,428,748	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AH	7,636,656	8,076,687	-	2,095,264	Illiquid	N/A	N/A	N/A	N/A
Fund AI	454,094	796,464	-	600,000	Illiquid	N/A	N/A	N/A	N/A
Fund AL	11,695,668	11,086,190	-	558,639	Illiquid	N/A	N/A	N/A	N/A
Fund AM	104,944	149,161	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AN	1,127,497	1,998,529	-	1,039,812	Illiquid	N/A	N/A	N/A	N/A
Fund AP	-	604,036	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AQ	446,000	1,686,732	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund AR	15,690,000	19,741,533	2,999,805	2,999,805	Illiquid	N/A	N/A	N/A	N/A
Fund AS	30,534,000	25,972,947	2,360,555	284,992	Illiquid	N/A	N/A	N/A	N/A
Fund BE	11,297,047	7,218,324	3,042,308	4,567,308	Illiquid	N/A	N/A	N/A	N/A
Fund BF	10,348,000	4,735,997	2,553,618	5,768,792	Illiquid	N/A	N/A	N/A	N/A
Fund BG	7,019,000	2,973,561	3,694,107	5,950,100	Illiquid	N/A	N/A	N/A	N/A
Fund BH	261,321	291,946	1,617,234	1,613,150	Illiquid	N/A	N/A	N/A	N/A
Fund BL	11,716,421	4,512,028	2,436,093	687,539	Illiquid	N/A	N/A	N/A	N/A
Fund CH	-	1,043,530	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund CI	1,754,523	1,411,564	4,312,416	-	Illiquid	N/A	N/A	N/A	N/A
Fund CJ	829,780	-	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund BW	1,499,999	-	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund BX	2,415,528	-	4,480,000	-	Illiquid	N/A	N/A	N/A	N/A
Fund BY	419,141	-	9,222,714	-	Illiquid	N/A	N/A	N/A	N/A
Fund BZ	200,000	-	1,800,000	-	Illiquid	N/A	N/A	N/A	N/A
Fund CA	65,000	-	435,000	-	Illiquid	N/A	N/A	N/A	N/A
Fund CB	1,000,000	-	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund CC	865,539	-	6,020,000	-	Illiquid	N/A	N/A	N/A	N/A
Fund CD	4,617,829	-	5,958,127	-	Illiquid	N/A	N/A	N/A	N/A
Fund CE	3,028,963	-	6,642,280	-	Illiquid	N/A	N/A	N/A	N/A
Fund CM	1,500,000	-	-	-	Illiquid	N/A	N/A	N/A	N/A
Total private equity	135,104,344	103,048,819	57,574,257	26,165,401					
Fixed-income - global fixed-income fund	24,077,368	24,406,698	-	-	Daily	10 days	N/A	N/A	N/A
Real assets:									
Energy-related hedge funds:									
Fund F	-	47,655	-	-	Quarterly	90 days	N/A	N/A	N/A
Fund G	-	3,920	-	-	Quarterly	90 days	N/A	N/A	N/A
Fund H	-	9,416,920	-	-	Monthly	30 days	Fund Level - 25%	N/A	5%
Total energy-related hedge funds	-	9,468,495	-	-					
Global Equity Futures	3,056,358	-	-	-	Daily	10 days	N/A	N/A	10%
Private:									
Fund AT	45,359	7,470,961	-	915,117	Illiquid	N/A	N/A	N/A	N/A
Fund AU	158,526	163,491	-	1,208,962	Illiquid	N/A	N/A	N/A	N/A
Fund AV	6,793,014	5,346,620	3,479,898	6,086,361	Illiquid	N/A	N/A	N/A	N/A
Fund AW	1,325,563	1,718,682	-	451,721	Illiquid	N/A	N/A	N/A	N/A
Fund AX	-	152,311	-	-	Illiquid	N/A	N/A	N/A	N/A
Fund BJ	6,147,194	1,392,651	703,890	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
Fund CF	3,462,759	-	11,537,241	-	Illiquid	N/A	N/A	N/A	N/A
Fund CG	2,375,987	-	4,498,883	-	Illiquid	N/A	N/A	N/A	N/A
Total private	20,308,402	16,393,497	20,219,912	14,227,558					
	\$ 590,660,142	\$ 503,408,589	\$ 77,794,169	\$ 40,392,959					

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,	
	2018	2017			2018	2017
Assets:						
Closely held stock	\$ 98,423,649	\$ 113,085,174	Market approach	EBITDA guideline multiple (b)	10.66 (10.66)	10.27 (10.27)
				EBITDA transaction multiple (b)	8.5 (8.5)	7.9 (7.9)
				Book guideline multiple (b)	1.53 (1.53)	1.88 (1.88)
			Income approach	Capitalization rate (a)	12.1% (12.1%)	6.4% (6.4%)
				Discount for lack of marketability (a)	32% (32%)	32% (32%)
Beneficial interest in trusts	15,172,459	12,945,639	Discounted cash flows	Discount rate (a)	0 - 6.25% (2.10%)	0 - 4.36% (1.62%)
				Expected rate of return (d)	2.4 -9.4% (5.73%)	2.4 -9.4% (5.72%)
Liabilities:						
Funds held on behalf of OSU	6,696,790	6,404,576	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	Income approach	Present value of future cash outflows (e)	-	-
				Discount rate (a)	0% (0%)	0% (0%)
Funds held on behalf of OSU Alumni Association	17,324,304	16,478,074	Income approach	Present value of future cash outflows (e)	-	-
				Discount rate (a)	0% (0%)	0% (0%)
Funds held on behalf of Foundation for the McKnight Center for the Performing Arts	4,802,518	-	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	2018	2017
Foundation Operations			
Land	N/A	\$ 2,383,552	\$ 2,383,552
Buildings and leasehold improvements	10 - 39 years	17,335,353	7,446,241
Equipment	3 - 10 years	5,273,054	3,870,750
Construction in process	N/A	-	4,737,948
		<u>24,991,959</u>	<u>18,438,491</u>
Less: accumulated depreciation		<u>6,989,210</u>	<u>6,728,220</u>
Net property and equipment, Foundation operations		18,002,749	11,710,271
Foundation Programs for OSU			
Land	N/A	782,965	982,965
Buildings and leasehold improvements	10 - 20 years	2,264,492	2,264,492
Equipment	3 - 10 years	7,787	7,787
		<u>3,055,244</u>	<u>3,255,244</u>
Less: accumulated depreciation		<u>395,657</u>	<u>247,309</u>
Net property and equipment, Foundation programs for OSU		<u>2,659,587</u>	<u>3,007,935</u>
Net property and equipment		<u>\$ 20,662,336</u>	<u>\$ 14,718,206</u>

Depreciation expense was approximately \$635,000 and \$431,000 for the years ended June 30, 2018 and 2017, 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:

	2018	2017
Cash, investments, interest and other receivables	\$ 17,019,941	\$ 14,448,962
Property and equipment and other property investments	169,178	169,178
Total assets held under split-interest agreements	<u>\$ 17,189,119</u>	<u>\$ 14,618,140</u>
Obligations under split-interest agreements	<u>\$ 11,499,368</u>	<u>\$ 9,130,078</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.

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 of 2.4% 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:

	2018	2017
Donated land and buildings	\$ -	\$ 2,168,464
Other donated assets	708,854	383,782
Total other property investments	<u>\$ 708,854</u>	<u>\$ 2,552,246</u>

Note 10 – Beneficial Interests in Trusts

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

	2018	2017
Perpetual trusts	\$ 10,066,880	\$ 8,130,647
Charitable remainder trusts	5,105,579	4,814,992
Total beneficial interests in trusts	<u>\$ 15,172,459</u>	<u>\$ 12,945,639</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 6.25% and 4.36% at June 30, 2018 and 2017, respectively. Contribution revenue related to these agreements was \$1,625,112 and \$383,072 for the years ended June 30, 2018 and 2017, 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. Cowboy Dining, LLC was transferred to the University in October 2017. This transaction removed the activities related to the sale of alcohol beverages at the University-owned Ranchers' Club and Atherton Hotel from the Foundation. 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 the McKnight Center and transferred to the 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, 2018 and 2017, totaled approximately \$3,510,000 and \$10,326,000, respectively. The Foundation made distributions of approximately \$28,616,000 for the years ended June 30, 2017.

Note 12 – Employee Benefit Plan

The Foundation has a defined contribution benefit plan (the Plan) covering all employees who meet eligibility requirements under the Plan. The Foundation contributes between 5% and 11.5% of eligible employees' salaries based on length of service to the Foundation. The Foundation made contributions to the plan of approximately \$1,190,000 and \$1,009,000 during the years ended June 30, 2018 and 2017, 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 \$2,667,000 and \$3,248,000, respectively, for the years ended June 30, 2018 and 2017, of which approximately \$1,312,000 and \$1,601,000 at June 30, 2018 and 2017, respectively. In fiscal year 2018, the Foundation entered into an unsecured advancing term note to assist the University in funding building construction. The University entered into an interim funding agreement with the Foundation which provides that if funds at the Foundation are not available for principal and interest on the note, the University is responsible for payment. The outstanding balance at June 30, 2018 was approximately \$8,739,000. The outstanding balances are included in interest and other receivables in the consolidated statements of financial position.

The Foundation had an agency agreement with Cowboy Athletics whereby the Foundation held and safe kept assets in a custodial account to serve as collateral for a certain loan agreement between Cowboy Athletics and its lender. The loan was paid off and the custodial account was released in fiscal year 2017. 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 \$130,390 and \$18,578,274 for the years ended June 30, 2018 and 2017, respectively. Requests for transfers from the agency account totaled approximately \$5,066,000, for the year ended June 30, 2017. 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 at June 30, 2017.

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 \$22,024,000 and \$5,404,000 held for the benefit of the Athletic Department to Cowboy Athletics during 2018 and 2017, respectively. These distributions are recognized as Cowboy Athletics program services expense in the consolidated statements of activities.

Note 14 – Debt

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 the last day of each month. The outstanding balance totaled \$10,000,000 and \$3,480,000 at June 30, 2018 and 2017, respectively. Interest expense totaled approximately \$185,000 and \$18,000 at June 30, 2018 and 2017, respectively.

In July 2017, the Foundation entered into an agreement with a financial institution providing for a \$10,000,000 unsecured advancing term note. The maturity date is July 25, 2022, and interest is at variable 30-, 60- or 90-day LIBOR elected by the Foundation plus 1% per annum, adjusted on the last day of each month. The outstanding balance totaled \$8,739,000 at June 30, 2018. Interest expense totaled approximately \$124,000 at June 30, 2018.

In May 2018, the Foundation entered into an agreement with a financial institution providing for a \$60,000,000 unsecured advancing term note. The maturity date is May 31, 2023, and interest is at variable 30-, 60- or 90-day LIBOR elected by the Foundation plus 1% per annum, adjusted on the last day

of each month. The outstanding balance totaled \$2,500,000 at June 30, 2018. No interest was expensed during the year ended June 30, 2018.

Note 15 – Commitments

The Foundation had 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, 2018.

SUPPLEMENTAL INFORMATION

OKLAHOMA STATE UNIVERSITY FOUNDATION

COMBINING SCHEDULE OF ACTIVITIES – INTERCOLLEGIATE ATHLETIC ACCOUNTS

Year ended June 30, 2018

	Football	Basketball		Other Sports		Athletic Facilities	Nonprogram Specific	Total
		Men's	Women's	Men's	Women's			
Revenues:								
Contributions:								
Cash	\$ 8,805,426	\$ 2,913,130	\$ 127,968	\$ 1,329,376	\$ 508,372	\$ 11,269,094	\$ 1,901,641	\$ 26,855,007
Securities	16,878	88,825	2,475	3,544	8,099	1,729,372	197,538	2,046,731
Land, goods, services and other	68,746	35,667	3,000	21,746	329,461	446,750	213,913	1,119,283
Promises to give	-	-	-	28,017	-	11,580,439	2,261,680	13,870,136
Cowboy Athletics	138,861	141,287	502	6,608,189	-	914,266	305,801	8,108,906
Provision for uncollectible pledges	-	-	6,195	10,120	-	(521,413)	(511,546)	(1,016,644)
Interest and dividends	30,428	28,832	5,160	68,170	11,612	459,347	113,290	716,839
Net investment gains	328,824	312,155	54,698	648,888	125,959	4,656,667	1,165,027	7,292,218
Other income	(955)	30,960	1,800	5,719	9,904	514,041	137,777	699,246
Reclassifications - donor directed	90,576	-	-	-	-	-	5,850	96,426
Net intercollegiate athletic transfers	(1,461,170)	(26,660)	900	1,157,975	4,175	(2,415,446)	2,987,930	247,704
Total revenues	8,017,614	3,524,196	202,698	9,881,744	997,582	28,633,117	8,778,901	60,035,852
Expenses:								
Program expenses:								
Budget support	7,000,000	3,000,000	25,000	165,000	120,000	-	-	10,310,000
Scholarship	-	2,511	2,000	-	-	-	-	4,511
General administration	281,906	189,399	50,001	303,859	70,602	1,354,244	1,149,740	3,399,751
Facilities, equipment and other purchases	-	-	1,393	-	-	36,417	-	37,810
Travel	21,407	36,738	12,013	32,633	35,503	21,181	293,119	452,594
Distribution of land, goods and services	68,746	35,667	3,000	21,747	329,461	-	213,913	672,534
Distributions to Cowboy Athletics	1,490,349	-	-	3,095,000	235,234	17,203,338	-	22,023,921
Building and equipment maintenance	39,944	18,407	9,873	8,902	11,610	-	17,366	106,102
Total expenses	8,902,352	3,282,722	103,280	3,627,141	802,410	18,615,180	1,674,138	37,007,223
Change in net assets	(884,738)	241,474	99,418	6,254,603	195,172	10,017,937	7,104,763	23,028,629
Net assets, beginning of year	15,952,004	9,205,185	1,481,415	8,943,247	1,934,829	115,084,232	28,103,905	180,704,817
Net assets, end of year	\$ 15,067,266	\$ 9,446,659	\$ 1,580,833	\$ 15,197,850	\$ 2,130,001	\$ 125,102,169	\$ 35,208,668	\$ 203,733,446