

Audited Financial Statements

**COMMUNITIES FOUNDATION
OF OKLAHOMA, INC.**

June 30, 2014

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

June 30, 2014

AUDITED FINANCIAL STATEMENTS

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Independent Auditors' Report

To the Board of Directors
Communities Foundation of Oklahoma, Inc.
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Communities Foundation of Oklahoma, Inc. (the "Foundation") which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 reasonable 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 Communities Foundation of Oklahoma, Inc. as of June 30, 2014 and 2013, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cole & Reed P.C.

Oklahoma City, Oklahoma
September 16, 2014

STATEMENTS OF FINANCIAL POSITION

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

	June 30	
	2014	2013
ASSETS		
Cash and cash equivalents	\$ 5,478,064	\$ 3,576,885
Contributions receivable, net	2,661,797	2,723,388
Investments	84,449,911	74,295,998
Real estate and mineral interests	723,122	626,781
Prepaid expenses	<u>1,884</u>	<u>3,366</u>
TOTAL ASSETS	<u>\$ 93,314,778</u>	<u>\$ 81,226,418</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 64,861	\$ 61,404
Grants payable, net	4,395,553	3,921,030
Agency transfers	<u>28,189,368</u>	<u>24,831,593</u>
TOTAL LIABILITIES	32,649,782	28,814,027
 NET ASSETS		
Unrestricted	<u>60,664,996</u>	<u>52,412,391</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 93,314,778</u>	<u>\$ 81,226,418</u>

See notes to financial statements.

STATEMENTS OF ACTIVITIES

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

	Year Ended June 30	
	<u>2014</u>	<u>2013</u>
REVENUES, GAINS AND OTHER SUPPORT		
Contributions	\$ 8,773,207	\$ 5,386,145
Investment income	1,057,747	1,127,813
Realized investment gains	1,891,373	1,511,728
Unrealized investment gains	4,388,111	2,523,394
Administrative fee income	864,991	779,348
TOTAL REVENUES AND GAINS	<u>16,975,429</u>	<u>11,328,428</u>
EXPENSES		
Grants and program services	8,081,484	6,641,411
Management and general	596,959	624,105
Fundraising	44,381	38,581
TOTAL EXPENSES	<u>8,722,824</u>	<u>7,304,097</u>
INCREASE IN NET ASSETS	8,252,605	4,024,331
NET ASSETS AT BEGINNING OF YEAR	<u>52,412,391</u>	<u>48,388,060</u>
NET ASSETS AT END OF YEAR	<u>\$ 60,664,996</u>	<u>\$ 52,412,391</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

	Year Ended June 30	
	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,252,605	\$ 4,024,331
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized investment gains	(4,388,111)	(2,523,394)
Net realized investment gains	(1,891,373)	(1,511,728)
Non-cash contributions	(275,535)	(570,783)
Proceeds from sale of non-cash contributions	275,535	329,002
Change in operating assets and liabilities:		
Contributions receivable	61,591	(456,325)
Prepaid expenses	1,482	1,482
Accounts payable	3,457	1,916
Grants payable	474,523	412,595
Agency transfers	(524,472)	560,731
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,989,702</u>	<u>267,827</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of real estate and mineral interests	-	625,989
Proceeds from sale of investment securities	3,619,655	2,163,219
Purchases of investment securities	(3,708,178)	(3,227,082)
NET CASH USED IN INVESTING ACTIVITIES	<u>(88,523)</u>	<u>(437,874)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	1,901,179	(170,047)
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF YEAR	<u>3,576,885</u>	<u>3,746,932</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,478,064</u>	<u>\$ 3,576,885</u>
SUPPLEMENTAL CASH FLOW SUMMARY		
Non-cash contribution of stock and other investments	<u>\$ 275,535</u>	<u>\$ 329,002</u>
Non-cash contribution of mineral interests	<u>\$ -</u>	<u>\$ 241,781</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

June 30, 2014

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: Communities Foundation of Oklahoma, Inc. (the "Foundation") was incorporated November 26, 1991, under the laws of the state of Oklahoma as a not-for-profit organization to serve the charitable needs of communities in Oklahoma under the name Oklahoma Communities Foundation, Inc. On December 3, 1999, the Foundation amended their articles of incorporation to change their name to Communities Foundation of Oklahoma, Inc. The founders saw a need to create a service for individuals, organizations and communities across the state to provide a way to donate encompassing all philanthropic interests or geographic locations. Today, the Foundation continues to provide a convenient, efficient and effective vehicle for donors to make gifts that permanently impact their community and a way for charities to build endowments to ensure their ability to continue meeting the needs of their communities long into the future.

Basis of Accounting: The financial statements report information regarding the Foundation's financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation receives contributions from donors with recommendations regarding distribution of the assets and the earnings therefrom. The Foundation attempts to meet the desires expressed by the donors at the time of the contribution; however, the Foundation reserves the right to modify any restrictions or conditions on the distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgment of the Foundation's Board of Directors (the "Board"), such restrictions or conditions become unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community. Accordingly, the financial statements classify all net assets as unrestricted.

The state of Oklahoma adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") November 1, 2007. The Board has determined that the Foundation's net assets do not meet the definition of an endowment under UPMIFA. The Foundation is governed subject to the terms of its by-laws and articles of incorporation and all contributions are subject to the terms of these governing documents. Under the terms of the Foundation's governing documents, the Board has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine.

As a result of the ability to distribute corpus, all contributions to the Foundation are classified as unrestricted net assets for financial statement purposes. While the assets of the Foundation do not meet the definition of an endowment as defined under UPMIFA, some of the assets function as endowments and are managed by the Foundation similar to endowment funds.

The Foundation accounts for assets that are transferred by a not-for-profit organization ("NPO") for the benefit of that NPO or one of its affiliated organizations as a liability to the specified beneficiary concurrent with recognition of the assets received in the transfer. All assets of this type, and the activity associated with those assets, are reported as agency transfers in the statements of financial position.

NOTES TO FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

June 30, 2014

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Contributions Received: Contributions received are recorded as unrestricted net assets as discussed above when they are received or unconditionally promised. It is the expressed intention of the Foundation to honor the designations of donors; however, the Foundation reserves the right to exercise final control over all funds.

Donated Assets: Donated marketable securities and other noncash assets are recorded as contributions at their estimated fair values at the time of donation.

Donated Services: No revenues have been recognized in the statements of activities for donated services. The Foundation pays for most services requiring specific expertise; however, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with special projects, committee assignments and service on the Board of Directors.

Cash and Cash Equivalents: Cash and cash equivalents consist primarily of cash management accounts and short-term, highly liquid investments with a maturity of three months or less when purchased, excluding cash equivalent funds held in the Foundation's investment portfolio.

Concentration of Credit Risk: The Foundation maintains cash in bank deposit accounts which, at times, may exceed federally insured limits of \$250,000. Checking account balances in excess of federally insured limits are regularly swept into an account that is secured by a mutual fund that invests primarily in government securities. The Foundation has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash or cash equivalents.

In 2014 and 2013, there were no significant concentrations of contributions. Contributions receivable reflected in the statements of financial position are primarily due from two donors representing 96% and 99% of gross contributions receivable at June 30, 2014 and 2013, respectively.

Promises to Give: Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits. Contributions receivable as of June 30, 2014 are expected to be received as follows:

Less than one year	\$ 849,555
One year to five years, net of discount of \$24,798	<u>1,812,242</u>
	<u>\$ 2,661,797</u>

Promises to give, which are due in more than one year, are discounted at 2% and 1%, respectively, which represent the estimated risk free rate at June 30, 2014 and 2013.

NOTES TO FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

June 30, 2014

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Promises to Give--Continued: The Foundation considers contributions receivable to be unrestricted support available to support current operations and, as a result, reports these balances as a component of unrestricted net assets.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. An allowance for uncollectible receivables is provided based on management's judgment including factors such as prior collections, history, type of contribution, and nature of the activity. No allowance has been recorded as of June 30, 2014 or 2013.

Grants and Program Services: Grants and program services represent amounts awarded to various recipients in accordance with the Foundation's mission. Grants payable consist of unconditional amounts awarded, but not paid, to recipients. All amounts included in liabilities as of June 30, 2014, are expected to be paid as follows:

Less than one year	\$ 1,634,600
One year to five years, net of discount of \$30,297	<u>2,760,953</u>
	<u>\$ 4,395,553</u>

Grants payable, which are due in more than one year, are discounted at 2% and 1%, respectively, which represent the estimated risk free rate at June 30, 2014 and 2013.

Investments: The Foundation carries investments in marketable securities at their fair values in the statements of financial position. Fair values are based on quoted market prices, if available. Non-marketable investments for which observable market prices in active markets do not exist are reported at fair value based on net asset values provided by the investment managers. Substantially all investments are held under a master custodial arrangement by a bank trust department.

Real Estate and Mineral Interests: Real estate and mineral interests are recorded at the lower of cost or fair value. Permanent decreases in fair value below cost are recorded in the year that such decreases become known. Contributions of real estate and mineral interests are recorded at fair market value at the time of donation.

Property and Equipment: Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from five to seven years.

NOTES TO FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

June 30, 2014

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized in the statements of activities. Costs are allocated between grants and program services, management and general and fundraising based on management's evaluation of the resources expended in the related activities. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation.

Income Tax Status: The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation has no activities which are subject to tax on unrelated business income, nor has it been classified by the Internal Revenue Service as a private foundation.

Management has evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Foundation is not subject to examination by any tax jurisdiction for years prior to June 30, 2010.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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. Estimates that are particularly susceptible to significant change include the valuation of investments and pledges receivable. Investments in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these assets, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the 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 pledges receivable is based on consideration of all relevant available information and an analysis of the collectability of individual contributions 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).

NOTES TO FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

June 30, 2014

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Fair Value Measurements--Continued: 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.

The Foundation has certain investments which are measured at net asset value per share ("NAV"). If the Foundation has the ability to redeem its investment with the investee at NAV at the measurement date or within ninety days of the measurement date, the fair value of the investment is categorized as a Level 2 fair value measurement. If the Foundation will never have the ability to redeem its investment with the investee at NAV or the Foundation cannot redeem its investment within ninety days of the measurement date, the fair value of the investment is categorized as a Level 3 fair value measurement.

Financial assets and liabilities carried at fair value on a recurring basis include investments, and the liability for agency transfers. The Foundation has no assets or liabilities carried at fair value on a non-recurring basis at June 30, 2014 or 2013.

New Accounting Pronouncements: For the year ended June 30, 2014, the Foundation implemented ASU 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit ("NFP") Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This ASU requires a NFP to classify cash receipts from the sale of donated financial assets consistently with cash donations received if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes in which case, those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities. The adoption of ASU 2012-05 required the Foundation reclassify proceeds from the sale of non-cash contributions from investing activities to operating activities in the statements of cash flows.

NOTES TO FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

June 30, 2014

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Subsequent Events: The Foundation has evaluated subsequent events through September 16, 2014, which is the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.

NOTE B--INVESTMENTS

Investments in cash equivalents and securities at fair value consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Cash equivalent funds	\$ 877,210	\$ 697,046
Securities:		
Equity funds	47,610,321	40,544,869
Fixed income funds	35,962,380	33,054,083
	<u>\$ 84,449,911</u>	<u>\$ 74,295,998</u>

Investment income consists of interest and dividends earned during the years ended June 30, 2014 and 2013.

NOTE C--AGENCY TRANSFERS

The Foundation follows the Accounting Standards Codification (*Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*), which establishes standards for transactions in which the Foundation accepts a transfer from a donor and agrees to transfer those assets, the return on investment of those assets or both to another entity that is specified by the donor. This guidance specifically requires that if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself or one of its affiliated organizations as the beneficiary of that fund, the community foundation must account for the transfer of such assets and the activity associated with those assets as a liability.

The Foundation maintains variance power, as described in the governing documents of the Foundation, and legal ownership over these funds and, as such, continues to report the funds as assets of the Foundation. Variance power assures donors that if the charitable purpose of their contribution becomes impractical or impossible, the distributions will be directed to similar purposes in the community. All financial activity for the years ended June 30, 2014 and 2013, related to these assets has been reclassified from the statements of activities to the liability on the statements of financial position.

NOTES TO FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

June 30, 2014

NOTE D--COMMITMENTS

The Foundation entered into an agreement for management services with Foundation Management, Inc. ("FMI") on August 2, 2006. The agreement called for the Foundation to pay FMI 44% of all administrative income and 100% of Oklahoma Education Technology Trust (the "Trust") management fee income. The agreement was subsequently amended on August 28, 2012, for a term of three years. As a result of the amendment, 100% of management fee income from the Trust and the Muskogee Foundation (the "Muskogee Foundation") and 55% of administrative income earned by the Foundation are due to FMI. The fees expended under this agreement were \$887,624 and \$771,622 for the years ended June 30, 2014 and 2013, respectively.

On December 18, 2001, the Foundation entered into an agreement with the Trust to coordinate the ongoing activities of the Trust and manage the process of soliciting and evaluating grant requests for the Trust. The agreement has been renewed annually on a rolling three year basis, with provisions for earlier termination by either party. The Foundation is paid an annual fee by the Trust for services provided. The fee is calculated and charged monthly, and is based on the fair value of Trust assets. For the purpose of calculating the fee for services, a minimum fair value of Trust assets had been imputed, which resulted in a minimum fee of \$180,000. Fees for services received under this agreement were \$210,146 and \$192,483 for the years ended June 30, 2014 and 2013, respectively.

On January 14, 2008, the Foundation entered into an agreement with the Muskogee Foundation to hold, invest, manage and administer the funds received from the lease of Muskogee Regional Medical Center. The term of the agreement was three years beginning with the date of funds received (August 2008), with provisions for earlier termination by either party. After the expiration date of the term of the agreement, the agreement will be automatically extended for successive one year periods. The Foundation is paid an annual fee by the Muskogee Foundation for services provided. The fee is calculated and charged monthly, and is based on the fair value of Muskogee Foundation assets.

The monthly management fee is equal to the product of .30% of aggregate market value of the assets. Fees for services received under this agreement were \$398,302 and \$365,794 for the years ended June 30, 2014 and 2013, respectively.

NOTE E--RELATED PARTY TRANSACTIONS

The Foundation had investments of approximately \$81,777,000 and \$71,915,000 at June 30, 2014 and 2013, respectively that were managed by a local bank. The Foundation also had cash and cash equivalents of approximately \$5,478,000 and \$3,577,000, at June 30, 2014 and 2013, respectively that were held in accounts with the same bank. Members of the Foundation's Board of Directors have an ownership interest and help manage the operations of this bank. The Foundation paid investment management and other fees to this bank of approximately \$373,000 and \$392,000 for the years ended June 30, 2014 and 2013, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

June 30, 2014

NOTE F--FAIR VALUE MEASUREMENTS

The following methods and assumptions were used to estimate the fair value of assets and liabilities in the financial statements.

Cash and Cash Equivalents: Cash and cash equivalents are stated at fair value based on quoted market prices and accordingly are classified as Level 1 in the fair value hierarchy.

Investments:

Marketable Securities: All of the Foundation's marketable securities are valued by the custodian, broker, or the fund/account manager using nationally recognized third party pricing services. The Foundation gives highest priority to quoted prices in active markets for identical assets accessed at the measurement date and 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. The values provided by the pricing services use the market approach and/or the income approach. Observable 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. Mid-market pricing or other pricing conventions may be used for fair value measurements within a bid-ask spread. Observable Level 2 inputs under the income approach include commonly quoted interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and/or default rates.

Non-Marketable Securities: Common trust funds are carried at fair value which is based on the NAV per share of the fund as provided by the investment manager. The Foundation classifies non-marketable securities carried at NAV as a Level 2 or Level 3 measurement depending upon the timing of the redemption provisions. If the Foundation has the ability to redeem the investment at the stated price within ninety days of the measurement date, the Foundation classifies the input as Level 2. However, if the Foundation cannot redeem the investment within ninety days of the measurement date, the Foundation considers the input as Level 3.

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. 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 the Foundation and due to inclusion of a discount to net present value on the gift date and allowance for uncollectible accounts the carrying value approximates fair value.

Grants Payable: The carrying amount of grants and program services payable is based on the discounted value of the expected future cash distributions, which approximates fair value.

Account Payable: The carrying amount approximates fair value due to the short maturity of those amounts.

NOTES TO FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

June 30, 2014

NOTE F--FAIR VALUE MEASUREMENTS--Continued

Agency Transfers: The liability is carried at fair value as determined using the income approach. Fair value is based on the fair value of the cash and investment assets held by the Foundation for the benefit of the recipient agencies; however, as there is no market for similar liabilities, the key input is the future cash flow obligations to the recipients. The specific assets held have been classified within the hierarchy for investment (as discussed above). The related and associated liability are classified as Level 3 in the hierarchy as there is no market for a similar liability and principal input (i.e., fair value of future cash flows to recipients is based on the fair market value of the assets in the portfolio and management's allocation for shares in the pool) are unobservable and significant to the overall fair value measurement.

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

		As of June 30, 2014			
		Level 1	Level 2	Level 3	Total
Investments:					
Cash equivalent funds		\$ 877,210	\$ -	\$ -	\$ 877,210
Equity securities:					
Mutual funds:					
Emerging markets funds		2,467,229	-	-	2,467,229
Blended funds		19,107,923	-	-	19,107,923
Growth funds		3,021,234	-	-	3,021,234
Value funds		12,467,992	-	-	12,467,992
Moderate allocation		15,476	-	-	15,476
Real estate funds		87,789	-	-	87,789
	Total mutual funds	37,167,643	-	-	37,167,643
Common trust funds:					
Growth funds		-	3,783,232	-	3,783,232
Value funds		-	6,659,446	-	6,659,446
	Total common trust funds	-	10,442,678	-	10,442,678
	Total equity securities	37,167,643	10,442,678	-	47,610,321
Fixed income securities:					
Mutual funds:					
Corporate bond funds		-	102,140	-	102,140
Multi-sector bond funds		2,782,102	-	-	2,782,102
Blended funds		25,166	-	-	25,166
World bond funds		362,817	-	-	362,817
Government funds		65,366	-	-	65,366
Short term bond funds		3,777,579	-	-	3,777,579
Intermediate term bond funds		26,637,296	-	-	26,637,296
	Total mutual funds	33,650,326	102,140	-	33,752,466
Strategic income common trust funds		-	1,901,291	-	1,901,291
Government agency bonds		-	197,097	-	197,097
Mortgage backed securities		-	111,527	-	111,526
	Total fixed income securities	33,650,326	2,312,055	-	35,962,380
	Total investments at fair value	\$71,695,179	\$12,754,733	\$ -	\$84,449,911
Agency transfers		\$ -	\$ -	\$28,189,368	\$28,189,368

NOTES TO FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

June 30, 2014

NOTE F--FAIR VALUE MEASUREMENTS--Continued

	As of June 30, 2013			
	Level 1	Level 2	Level 3	Total
Investments:				
Cash equivalent funds	\$ 697,046	\$ -	\$ -	\$ 697,046
Equity securities:				
Mutual funds:				
Emerging markets funds	1,562,307	-	-	1,562,307
Blended funds	15,962,037	-	-	15,962,037
Growth funds	2,414,243	-	-	2,414,243
Value funds	10,998,916	-	-	10,998,916
Moderate allocation	13,133	-	-	13,133
Real estate funds	62,231	-	-	62,231
Total mutual funds	31,012,867	-	-	31,012,867
Common trust funds:				
Growth funds	-	3,508,546	-	3,508,546
Value funds	-	6,023,456	-	6,023,456
Total common trust funds	-	9,532,002	-	9,532,002
Total equity securities	31,012,867	9,532,002	-	40,544,869
Fixed income securities:				
Mutual funds:				
Inflation protected bond funds	23,989	-	-	23,989
Corporate bond funds	50,082	100,058	-	150,140
Multi-sector bond funds	2,513,873	-	-	2,513,873
Blended funds	22,814	-	-	22,814
World bond funds	297,347	-	-	297,347
Government funds	152,575	-	-	152,575
Short term bond funds	3,453,195	-	-	3,453,195
Intermediate term bond funds	23,878,960	-	-	23,878,960
Total mutual funds	30,392,835	100,058	-	30,492,893
Strategic income common trust funds	-	1,961,811	-	1,961,811
Government agency bonds	-	468,324	-	468,324
Mortgage backed securities	-	131,055	-	131,055
Total fixed income securities	-	2,561,190	-	33,054,083
Total investments at fair value	\$ 31,709,913	\$ 12,093,192	\$ -	\$ 74,295,998
Agency transfers	\$ -	\$ -	\$ 24,831,593	\$ 24,831,593

NOTES TO FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

June 30, 2014

NOTE F--FAIR VALUE MEASUREMENTS--Continued

The following is a summary of changes in agency transfers included in Level 3 of the fair value hierarchy for the years ended June 30:

	2014	2013
Balance at beginning of year	\$ 24,831,593	\$ 21,447,664
Transfers	2,022,884	2,836,168
Investment income	480,339	521,567
Realized investment gains	1,176,470	1,029,085
Unrealized investment gains	2,225,438	1,272,546
Grants and program services	(2,300,810)	(2,064,333)
Management and general expenses	(246,546)	(211,104)
	<u>\$ 28,189,368</u>	<u>\$ 24,831,593</u>

The summary of changes in fair value of the Level 3 liability for agency transfers have been prepared to reflect the same categories as those used in the statements of activities; however, all of the activity in the liability is also included in the respective "agency transfers" amounts in the statements of activities, except for the administrative and other fees. As a result, none of the activity is being included in the Foundation's change in net assets, except for the administrative and other fees, as all activity directly impacts the carrying value of the asset and the liability for agency transfers and does not flow through to net assets. The administrative and other fees decrease the fair value of the liability for agency transfers but increase the Foundation's change in net assets and are reflected as administrative fee income in the statements of activities.

The Foundation's investments in certain entities that calculate net asset value per share which are measured at fair value include the following at June 30:

	Fair Value		Redemption or Liquidity	Days Notice
	2014	2013		
Growth funds	\$ 3,783,232	\$ 3,508,546	Daily	One
Value funds	6,659,446	6,023,456	Daily	One
Strategic income funds	1,901,291	1,961,811	Daily	One

Common Trust Funds: Investments in growth funds, value funds and strategic income funds total \$12,343,969 and \$11,493,813 at June 30, 2014 and 2013, respectively. These investments consist of various domestic equity and fixed income funds. The Foundation invests in these assets to achieve returns consistent with the adopted investment policies.

NOTES TO FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

June 30, 2014

NOTE F--FAIR VALUE MEASUREMENTS--Continued

The following table summarizes the valuation techniques and significant unobservable inputs used for the Foundation's liabilities that are categorized within Level 3 of the fair value hierarchy as of June 30, 2014:

Investment Type	Fair Value at June 30, 2014	Fair Value at June 30, 2013	Valuation Techniques	Unobservable Input ^(b)	Range of Inputs (Weighted Average)
Liability for agency transfers	\$28,189,368	\$24,831,593	Income approach ^(c)	Discount rate ^(a)	0% (0%)

- (a) Represents amounts used when the reporting entity has determined that market participants would take into account these returns when pricing the investments.
- (b) Significant increases or decreases in any of the above unobservable inputs in isolation may result in a significantly lower or higher fair value measurement.
- (c) Fair value of the asset/liability is the expected future cash inflows/outflows which is based on the fair value of the underlying investment assets and at this time management believes no discounts to the fair values is appropriate.

NOTE G--ENDOWMENT DISCLOSURES

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

	Unrestricted	
	2014	2013
Board-designated endowment funds:		
Community funds	\$ 4,200,486	\$ 3,444,465
Designated	10,782,893	9,445,571
Field of interest	1,921,510	1,726,085
Scholarship	4,708,055	3,746,742
Undesignated	1,189,187	1,080,870
Total endowment funds	\$ 22,802,131	\$ 19,443,733

NOTES TO FINANCIAL STATEMENTS--Continued

COMMUNITIES FOUNDATION OF OKLAHOMA, INC.

June 30, 2014

NOTE G--ENDOWMENT DISCLOSURES--Continued

Changes in endowment net assets are as follows:

	<u>2014</u>	<u>2013</u>
Endowment net assets, beginning of year	\$ 19,443,733	\$ 16,843,849
Investment return:		
Interest and dividends	333,650	353,943
Royalty income	90,761	38,907
Net investment gains (losses)	<u>2,928,112</u>	<u>1,836,937</u>
	3,352,523	2,229,788
Contributions	1,070,938	1,273,261
Appropriations for expenditures	(816,789)	(695,020)
Administrative fees	<u>(248,274)</u>	<u>(208,144)</u>
Endowment net assets, end of year	<u>\$ 22,802,131</u>	<u>\$ 19,443,733</u>

Return Objectives and Risk Parameters, Strategies Employed for Achieving Objectives, and Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve these objectives. Generally, the Foundation follows a spending policy of 6% of total assets calculated over eight quarters, which based on the expected rate of return is designed to ensure preservation of capital. The investment policy establishes an achievable long-term return objective through diversification of asset classes.

To achieve its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.