

OKLAHOMA EDUCATIONAL TECHNOLOGY  
TRUST

FINANCIAL REPORT

DECEMBER 31, 2015 and 2014

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# *Luton & Co., PLLC*

CERTIFIED PUBLIC ACCOUNTANTS

One Broadway Executive Park

201 NW 63<sup>rd</sup> Street, Suite 100

P.O. Box 13120

Oklahoma City, OK 73113

(405)848-7313 FAX (405)848-7316

Bruce L. Van Huisen

David R. Brady

## INDEPENDENT AUDITOR'S REPORT

Oklahoma Educational Technology Trust  
Oklahoma City, OK

We have audited the accompanying financial statements of Oklahoma Educational Technology Trust (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets 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 audits 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 Educational Technology Trust as of December 31, 2015 and 2014, 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.

*Luton & Co., PLLC*

Oklahoma City, Oklahoma  
June 30, 2016

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 549,886	\$ 329,843
Accrued income	13,573	6,000
Marketable securities	33,764,207	35,875,605
Due from CFO	502	-
	<u>\$ 34,328,168</u>	<u>\$ 36,211,448</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 7,173	\$ 7,492
Grants payable	293,102	10,000
	300,275	17,492
NET ASSETS		
Unrestricted	<u>34,027,893</u>	<u>36,193,956</u>
	<u>\$ 34,328,168</u>	<u>\$ 36,211,448</u>

The Notes to Financial Statements are an integral part of these statements.

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2015 and 2014

	2015	2014
Revenues		
Interest and dividends	\$ 745,099	\$ 711,240
Realized gains	3,484,454	2,124,664
Unrealized losses	<u>(4,597,383)</u>	<u>(817,137)</u>
Total revenues	(367,830)	2,018,767
Expenses		
Grants	1,466,204	1,325,000
Management fees	213,806	216,590
Investment fees	101,493	104,706
Insurance	5,174	5,139
Audit fees	5,600	5,200
Travel and meeting expenses	2,799	4,103
Other expenses	309	26
Printing and publication	1,848	310
Attorney fees	<u>1,000</u>	<u>500</u>
Total expenses	<u>1,798,233</u>	<u>1,661,574</u>
Increase in net assets	(2,166,063)	357,193
Net assets, beginning	<u>36,193,956</u>	<u>35,836,763</u>
Net assets, ending	<u>\$ 34,027,893</u>	<u>\$ 36,193,956</u>

The Notes to Financial Statements are an integral part of these statements.

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Interest and dividends received	\$ 737,526	\$ 740,152
Grants paid	(1,183,102)	(1,320,000)
Other expenses paid	<u>(332,850)</u>	<u>(336,673)</u>
Net cash provided (used) by operating activities	<u>(778,426)</u>	<u>(916,521)</u>
Cash flows from investing activities		
Purchases of marketable securities	(8,861,927)	(10,487,604)
Proceeds from sales and maturities of marketable securities	<u>9,860,396</u>	<u>10,981,749</u>
Net cash provided (used) by investing activities	<u>998,469</u>	<u>494,145</u>
Increase (decrease) in cash and cash equivalents	220,043	(422,376)
Cash and cash equivalents, beginning	<u>329,843</u>	<u>752,219</u>
Cash and cash equivalents, ending	<u>\$ 549,886</u>	<u>\$ 329,843</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	\$ (2,166,063)	\$ 357,193
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized (gains) losses	(3,484,454)	(2,124,664)
Unrealized (gains) losses	4,597,383	817,137
(Increase) decrease in assets		
Accrued income	(7,573)	28,912
Due from CFO	(502)	-
Increase (decrease) in liabilities		
Accounts payable	(319)	(99)
Grants payable	<u>283,102</u>	<u>5,000</u>
Net cash provided (used) by operating activities	<u>\$ (778,426)</u>	<u>\$ (916,521)</u>

The Notes to Financial Statements are an integral part of these statements.

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 1. Organization and Summary of Significant Accounting Policies

Organization

The Oklahoma Educational Technology Trust (“the Trust”) was created on February 6, 2001. The Trust was initially funded with contributions from Southwestern Bell Telephone Company totaling \$30,725,049. The purpose of the Trust is to provide funding for the purchase, installation, and maintenance of information technology in the common and CareerTech schools of the State of Oklahoma. In fulfilling this purpose, the Trust may assist schools in obtaining, installing, and integrating computer equipment, software, and related telecommunications products and services for the use and benefit of the schools.

Basis of presentation

Financial statement presentation follows generally accepted accounting principles and reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Trust has only unrestricted net assets.

Use of estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Statement of cash flows

For purposes of the statement of cash flows, the Trust considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Income taxes

The Trust is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code.

Investment and investment return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value, and realized gains and losses on other investments.



OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 2. Functional Expenses

Generally accepted accounting principles require a presentation of expenses on a functional basis. The costs of providing program services and other activities have been summarized below. Certain costs have been allocated among the program and supporting services benefited.

	2015	2014
Program services	\$1,596,307	\$1,457,416
Support services		
Management and general	201,926	204,158
Fundraising	<u>-</u>	<u>-</u>
	<u>201,926</u>	<u>204,158</u>
	<u>\$1,798,233</u>	<u>\$1,661,574</u>

Note 3. Marketable Securities and Fair Values

Investments are measured at fair value in the statements of financial position. Realized and unrealized gains and losses are reported in the statements of activities and changes in net assets. Accounting standards establish a three level hierarchy for the valuation of financial instruments:

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

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

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

The Trust’s marketable securities consist primarily of bonds, mutual funds, and equities. A summary of the marketable securities as of December 31, sorted by fair value hierarchy, is as follows:

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 3. Marketable Securities and Fair Values, continued

	Cost	Market Value
2015 -		
Mutual funds (Level I)		
PIMCO Total Return	\$ 2,716,712	\$ 2,520,601
Baird Intermediate Bond Fund	4,228,348	4,187,626
Causeway International Value	1,811,745	1,607,248
Dodge & Cox Income Fund	4,165,727	4,188,306
MFS Research International	1,140,376	1,074,850
American Beacon L/C Value Fund	632,742	585,458
Nuveen Winslow Large-Cap Growth Fund Class I	1,672,991	1,656,101
Vanguard 500 Index Fund	2,350,728	4,138,161
Federated Clover Small Value	438,874	524,937
Vanguard Small Cap Value Index Fund	1,791,283	1,551,602
Northern Small Cap Value Fund	476,597	435,763
Vanguard Mid-Cap Value Index Adm	2,181,006	2,068,325
Vanguard Growth Index Admiral	2,639,532	2,484,548
Earnest Partners LLC-Small Cap Value	1,312,703	1,433,921
Lazard Emerging Markets	1,859,907	1,431,369
Goldman Sachs Strategic Income Fund	1,076,437	1,064,323
PIMCO Low Duration	1,387,100	1,328,053
Dodge & Cox Stock Fund	614,837	879,767
Vanguard Value Index Admiral	<u>714,842</u>	<u>603,248</u>
	<u>\$33,212,487</u>	<u>\$33,764,207</u>

Unrealized losses arising during the year totaling \$4,597,383 have been included in the accompanying statement of activities and changes in net assets. Realized gains of \$3,484,454 are also included in the statement of activities. Total proceeds of securities sales were \$9,860,396 and the gain or loss was determined using the specific identification method.

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 3. Marketable Securities and Fair Values, continued

	Cost	Market Value
2014 -		
Mutual funds (Level I)		
PIMCO Total Return	\$ 2,635,767	\$ 2,563,367
Baird Intermediate Bond Fund	4,116,514	4,135,100
Causeway International Value	1,409,146	1,291,980
Dodge & Cox Income Fund	3,960,237	4,129,834
William Blair Small Cap Value	257,304	389,277
MFS Research International	887,786	861,235
American Beacon L/C Value Fund	393,895	606,670
Nuveen Winslow Large-Cap Growth Fund Class I	1,124,692	1,273,270
Vanguard 500 Index Fund	3,863,093	6,633,530
Federated Clover Small Value	460,530	597,979
Vanguard Small Cap Value Index Fund	782,383	1,133,543
Bancfirst Common Trust-Large Growth Equity Fund	1,873,106	1,973,947
Bancfirst Common Trust-Small Value Equity Fund	1,097,048	1,212,437
Bancfirst Common Trust-Large Value Equity Fund	552,178	639,261
Earnest Partners LLC-Small Cap Value	1,426,692	2,164,118
Lazard Emerging Markets	1,041,813	966,213
Goldman Sachs Strategic Income Fund	1,027,543	1,080,772
PIMCO Low Duration	1,370,940	1,330,317
Dodge & Cox Stock Fund	1,275,968	1,945,755
Certificates of Deposit (Level II)		
Merchants Bank of Indiana	200,000	200,000
Santander Bank National	249,000	249,000
Bank of India	249,000	249,000
Enterprise Bank and Trust	<u>249,000</u>	<u>249,000</u>
	<u>\$ 30,503,635</u>	<u>\$ 35,875,605</u>

Unrealized gains arising during the year totaling \$817,137 have been included in the accompanying statement of activities and changes in net assets. Realized gains of \$2,124,664 are also included in the statement of activities and changes in net assets. Total proceeds from the sale of securities were \$10,981,749 and the gain or loss was determined using the specific identification method.

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 4. Management Fees

The Trust has entered into an agreement with Communities Foundation of Oklahoma (the "Foundation"), to administer the Trust. The Foundation provides staff, office space and equipment to execute the granting program and all administrative functions. Fees are calculated at an annual rate of 0.6% of the fair market value of Trust assets, payable monthly. The minimum monthly fee is \$15,000. The term of the agreement is three years, but it can be terminated by either party with 90 days written notice. Management fees of \$213,806 and \$216,590 were paid to the Foundation for 2015 and 2014, respectively.

Note 5. Investment Advisory Fees

On July 22, 2005, the Trust entered into an investment management agreement with BancFirst. The agreement has no termination date but may be terminated at any time with 90 day written notice. Fees are calculated at 0.25% of the fair market value of assets under management, however if the assets drop below \$15,000,000, the fee is subject to renegotiation. Additional fees related to outside investment advisory services, trading costs for individual securities and unusual or special circumstances are not covered by this agreement.

Note 6. Grants Payable

The Trust has approved two phases of grants. Phase I provides professional development and iPADS to head principals and superintendents at Oklahoma public schools through the University of Oklahoma's Oklahoma Achievement through Collaboration and Technology Support (OK-ACTS) program. Upon successful completion of Phase I, these administrators are eligible to apply for a Phase II grant for their school or district. Each Phase II grant award consists of up to \$40,000 for technology equipment including up to \$4,000 for staff release time and professional development through OK-ACTS designed specifically for the grantee school's needs. Grant recipients are required to provide a 10% match of \$4,000 that can be used for technology equipment or substitutes or stipends for staff.

A summary of the grants payable activity is as follows:

	OK-ACTS Phase I	OK-ACTS Phase II	Total
Grants payable, January 1, 2014	\$ -	\$ 5,000	\$ 5,000
Year ended December 31, 2014-			
Grant award	30,000	1,295,000	1,325,000
Disbursements	<u>(30,000)</u>	<u>(1,290,000)</u>	<u>(1,320,000)</u>
Grants payable at year-end	-	10,000	10,000
Year ended December 31, 2015-			
Grant award	30,000	1,436,204	1,466,204
Disbursements	<u>(15,000)</u>	<u>(1,168,102)</u>	<u>(1,183,102)</u>
Grants payable at year-end	<u>\$ 15,000</u>	<u>\$ 278,102</u>	<u>\$ 293,102</u>

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 7. Granting Policy

To ensure perpetuity of the fund, the Trust agreement specifies a granting policy. The policy sets a distribution rate of 5% of the average fair market value of the trust assets from the previous 12 to 36 months. Distributions include grants and all trust expenses. Distributions less than 5% in any year may be carried over to increase subsequent year distributions. Upon approval by 70% of all Trustees, distributions may exceed the 5% ceiling but may never exceed 8% plus unexpended allowable amounts from previous years. Subsequent to year end, grants in the amount of \$1,365,000 were approved to be paid during 2016.

Note 8. Subsequent Events

Management has evaluated subsequent events, if any, through the report date of June 30, 2016, the date the report was available to be issued, and has determined that no additional events occurred which require disclosure in the financial statements.