

OKLAHOMA EDUCATIONAL TECHNOLOGY  
TRUST

FINANCIAL REPORT

December 31, 2017 and 2016

## CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of financial position	3
Statements of activities and changes in net assets	4
Statements of cash flows	5
Notes to financial statements	6 - 11

# *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, 2017 and 2016, 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, 2017 and 2016, 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  
July 11, 2018

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 824,984	\$ 2,035,818
Accrued income	5,835	9,318
Marketable securities	<u>37,561,137</u>	<u>33,325,136</u>
	<u>\$ 38,391,956</u>	<u>\$ 35,370,272</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 7,981	\$ 7,319
Grants payable	<u>282,500</u>	<u>285,000</u>
	290,481	292,319
NET ASSETS		
Unrestricted	<u>38,101,475</u>	<u>35,077,953</u>
	<u>\$ 38,391,956</u>	<u>\$ 35,370,272</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, 2017 and 2016

	2017	2016
Revenues		
Interest and dividends	\$ 741,081	\$ 664,456
Realized gains (losses)	674,396	(285,103)
Unrealized gains (losses)	3,310,609	2,355,810
Contribution	5,000	-
	<u>4,731,086</u>	<u>2,735,163</u>
Expenses		
Grants	1,365,000	1,365,000
Management fees	220,155	205,607
Investment fees	102,485	95,410
Insurance	5,073	5,174
Audit fees	6,500	5,600
Travel and meeting expenses	3,626	2,623
Other expenses	325	375
Printing and publication	4,400	4,814
Attorney fees	-	500
	<u>1,707,564</u>	<u>1,685,103</u>
Increase in net assets	3,023,522	1,050,060
Net assets, beginning	<u>35,077,953</u>	<u>34,027,893</u>
Net assets, ending	<u><u>\$ 38,101,475</u></u>	<u><u>\$ 35,077,953</u></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, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Interest and dividends received	\$ 744,563	\$ 668,711
Grants paid	(1,367,500)	(1,373,102)
Other expenses paid	(341,901)	(319,455)
Contributions received	5,000	-
	<u>(959,838)</u>	<u>(1,023,846)</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Purchases of marketable securities	(8,478,352)	(6,957,917)
Proceeds from sales and maturities of marketable securities	<u>8,227,356</u>	<u>9,467,695</u>
Net cash provided (used) by investing activities	<u>(250,996)</u>	<u>2,509,778</u>
Increase (decrease) in cash and cash equivalents	(1,210,834)	1,485,932
Cash and cash equivalents, beginning	<u>2,035,818</u>	<u>549,886</u>
Cash and cash equivalents, ending	<u>\$ 824,984</u>	<u>\$ 2,035,818</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	\$ 3,023,522	\$ 1,050,060
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized (gains) losses	(674,396)	285,103
Unrealized (gains) losses	(3,310,609)	(2,355,810)
(Increase) decrease in assets		
Accrued income	3,482	4,255
Due from CFO	-	502
Increase (decrease) in liabilities		
Accounts payable	663	146
Grants payable	<u>(2,500)</u>	<u>(8,102)</u>
Net cash provided (used) by operating activities	<u>\$ (959,838)</u>	<u>\$ (1,023,846)</u>

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

# OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

### 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 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, 2017 and 2016

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.

	2017	2016
Program services	\$1,499,427	\$1,490,125
Support services		
Management and general	208,137	194,978
Fundraising	<u>-</u>	<u>-</u>
	<u>208,137</u>	<u>194,978</u>
	<u>\$1,707,564</u>	<u>\$1,685,103</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, 2017 and 2016

Note 3. Marketable Securities and Fair Values, continued

	Cost	Market Value
2017 -		
Mutual funds (Level I)		
Baird Intermediate Bond Fund	\$ 2,920,465	\$ 2,930,416
Baird Short-Term Bond Inst	2,191,928	2,191,928
Causeway International Value	1,879,711	2,090,944
Dodge & Cox Income Fund	3,485,785	3,661,020
American Beacon L/C Value Fund	852,950	914,277
Vanguard 500 Index Fund	3,681,718	6,869,721
Vanguard Developed Markets Index Adm	1,103,292	1,387,655
Vanguard Small Cap Value Index Fund	586,288	858,405
Northern Small Cap Value Fund	550,112	581,391
Vanguard Mid-Cap Value Index Adm	1,863,623	2,288,365
Vanguard Growth Index Admiral	1,803,294	2,289,407
Vanguard Total Int'l Bond Index Adm	2,194,650	2,191,823
Vanguard Emerg Mkts Stock Index Adm	622,039	698,223
Earnest Partners LLC-Small Cap Value	744,234	1,355,227
Lazard Emerging Markets	1,351,507	1,632,668
Goldman Sachs Strategic Income Fund	1,189,593	1,170,205
PIMCO Low Duration	2,553,007	2,496,219
Dodge & Cox Stock Fund	911,564	1,371,471
Wells Fargo Special Small Value Inst	<u>487,318</u>	<u>581,772</u>
	<u>\$30,973,078</u>	<u>\$37,561,137</u>

Unrealized gains arising during the year totaling \$3,310,609 have been included in the accompanying statement of activities and changes in net assets. Realized gains of \$674,396 are also included in the statement of activities. Total proceeds of securities sales were \$8,227,356 and the gain or loss was determined using the specific identification method.

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 3. Marketable Securities and Fair Values, continued

	Cost	Market Value
2016 -		
Mutual funds (Level I)		
PIMCO Total Return	\$ 2,565,900	\$ 2,393,996
Baird Intermediate Bond Fund	3,943,109	3,928,313
Causeway International Value	1,829,091	1,629,509
Dodge & Cox Income Fund	3,798,176	3,923,344
American Beacon L/C Value Fund	800,161	811,072
Vanguard 500 Index Fund	4,144,569	6,253,250
Vanguard Developed Markets Index Adm	1,049,955	1,096,434
Vanguard Small Cap Value Index Fund	1,216,633	1,366,220
Northern Small Cap Value Fund	564,399	632,695
Vanguard Mid-Cap Value Index Adm	1,937,562	2,076,344
Vanguard Growth Index Admiral	2,082,183	2,083,800
Earnest Partners LLC-Small Cap Value	853,236	1,556,383
Lazard Emerging Markets	1,564,451	1,484,155
Goldman Sachs Strategic Income Fund	1,000,233	999,246
PIMCO Low Duration	1,303,183	1,251,233
Dodge & Cox Stock Fund	864,828	1,203,447
Wells Fargo Special Small Value Inst	<u>530,147</u>	<u>635,695</u>
	<u>\$30,047,816</u>	<u>\$33,325,136</u>

Unrealized gains arising during the year totaling \$2,355,810 have been included in the accompanying statement of activities and changes in net assets. Realized losses of \$285,103 are also included in the statement of activities. Total proceeds of securities sales were \$9,467,695 and the gain or loss was determined using the specific identification method.

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 \$220,155 and \$205,607 were paid to the Foundation for 2017 and 2016, respectively.

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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. 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:

	Phase I	Phase II	Total
Grants payable, January 1, 2016	\$ 15,000	\$ 278,102	\$ 293,102
Year ended December 31, 2016-			
Grant award	30,000	1,335,000	1,365,000
Disbursements	<u>(30,000)</u>	<u>(1,343,102)</u>	<u>(1,373,102)</u>
Grants payable at year-end	15,000	270,000	285,000
Year ended December 31, 2017-			
Grant award	30,000	1,335,000	1,365,000
Disbursements	<u>(30,000)</u>	<u>(1,337,500)</u>	<u>(1,367,500)</u>
Grants payable at year-end	<u>\$ 15,000</u>	<u>\$ 267,500</u>	<u>\$ 282,500</u>

OKLAHOMA EDUCATIONAL TECHNOLOGY TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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 \$1,485,000 were approved to be paid during 2018.

Note 8. Subsequent Events

Management has evaluated subsequent events, if any, through the report date of July 11, 2018, the date the report was available to be issued, and has determined that no additional events occurred which require disclosure in the financial statements.