

Osteopathic Founders Foundation

Independent Accountant's Review Report and Financial Statements

December 31, 2017



Osteopathic Founders Foundation
December 31, 2017

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Independent Accountant's Review Report

Board of Directors
Osteopathic Founders Foundation
Tulsa, Oklahoma

We have reviewed the accompanying financial statements of Osteopathic Founders Foundation (the Foundation), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Foundation's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 10* to the reviewed financial statements, the 2016 reviewed financial statements have been restated to correct misstatements. Our conclusion is not modified with respect to this matter.

BKD, LLP

Tulsa, Oklahoma
September 12, 2018

Osteopathic Founders Foundation
Statement of Financial Position
December 31, 2017

Assets

Cash and cash equivalents	\$ 91,957
Investments	19,403,261
Other assets	17,469
Furniture and equipment, net	3,910
Investments held in trusts	<u>601,184</u>
Total assets	<u><u>\$ 20,117,781</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 6,538
Accrued liabilities	103,871
Pledges payable	267,650
Unitrust liabilities payable	556,385
Funds held for others	21,022
Deferred compensation	<u>182,729</u>
Total liabilities	<u>1,138,195</u>

Net Assets

Unrestricted	16,611,461
Temporarily restricted	1,402,145
Permanently restricted	<u>965,980</u>
Total net assets	<u>18,979,586</u>
Total liabilities and net assets	<u><u>\$ 20,117,781</u></u>

Osteopathic Founders Foundation
Statement of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions and grants	\$ 190,481	\$ -	\$ -	\$ 190,481
Special events	227,250	-	-	227,250
Program and other income	66,070	-	-	66,070
Interest and dividend income	335,866	124,281	-	460,147
Net realized and unrealized gains on investments	1,838,841	233,129	-	2,071,970
Net assets released from restrictions and change in donor restrictions	125,810	(125,810)	-	-
Total revenue and support	<u>2,784,318</u>	<u>231,600</u>	<u>-</u>	<u>3,015,918</u>
Expenses				
Program services				
Grants, scholarships and other	426,173	-	-	426,173
Emergency cardiovascular care	140,016	-	-	140,016
Continuing medical education	166,922	-	-	166,922
Total program services	<u>733,111</u>	<u>-</u>	<u>-</u>	<u>733,111</u>
Support services				
Management and general	174,980	-	-	174,980
Fundraising	208,861	-	-	208,861
Total support services	<u>383,841</u>	<u>-</u>	<u>-</u>	<u>383,841</u>
Total expenses	<u>1,116,952</u>	<u>-</u>	<u>-</u>	<u>1,116,952</u>
Change in Net Assets	<u>1,667,366</u>	<u>231,600</u>	<u>-</u>	<u>1,898,966</u>
Net Assets, Beginning of Year, as Previously Reported	15,028,031	1,139,241	965,980	17,133,252
Adjustments applicable to prior years	(83,936)	31,304	-	(52,632)
Net Assets, Beginning of Year, as Restated	<u>14,944,095</u>	<u>1,170,545</u>	<u>965,980</u>	<u>17,080,620</u>
Net Assets, End of Year	<u>\$ 16,611,461</u>	<u>\$ 1,402,145</u>	<u>\$ 965,980</u>	<u>\$ 18,979,586</u>

Osteopathic Founders Foundation
Statement of Functional Expenses
Year Ended December 31, 2017

	Grants, Scholarships and Other	Emergency Cardiovascular Care	Continuing Medical Education	Management and General	Fundraising	Total
Contract and outside services	\$ 2,327	\$ 2,876	\$ 23,312	\$ 1,501	\$ 20,025	\$ 50,041
Depreciation	1,469	3,932	1,469	881	588	8,339
Events	-	-	-	7,880	97,748	105,628
Grants and scholarships	262,374	-	-	-	-	262,374
Insurance	-	1,908	493	3,756	-	6,157
Investment and bank fees	32,564	29,858	16,280	-	1,786	80,488
Legal and professional fees	-	-	-	19,116	2,124	21,240
Miscellaneous	2,782	20,020	14,419	27,831	996	66,048
Printing and postage	-	672	3,118	2,593	8,206	14,589
Rent	19,048	19,048	25,030	11,429	25,408	99,963
Salaries and employee benefits	102,865	51,432	68,576	68,576	51,432	342,881
Supplies	-	6,055	10,227	2,452	-	18,734
Unitrust distributions	-	-	-	25,191	-	25,191
Travel	2,744	4,215	3,998	3,774	548	15,279
	<u>\$ 426,173</u>	<u>\$ 140,016</u>	<u>\$ 166,922</u>	<u>\$ 174,980</u>	<u>\$ 208,861</u>	<u>\$ 1,116,952</u>

Osteopathic Founders Foundation
Statement of Cash Flows
Year Ended December 31, 2017

Operating Activities	
Change in net assets	\$ 1,898,966
Items not requiring (providing) operating activities cash flows	
Depreciation	8,339
Gain on beneficial interest in charitable remainder trust	(11,356)
Net realized and unrealized gains on investments	(2,060,614)
Changes in	
Pledges payable and unitrust liabilities	(16,356)
Accounts payable and accrued expenses	26,173
Other current assets	<u>6,231</u>
Net cash used in operating activities	<u>(148,617)</u>
Investing Activities	
Proceeds from sales of investments	7,666,326
Purchases of investments	(7,561,442)
Purchase of property and equipment	<u>(434)</u>
Net cash provided by investing activities	<u>104,450</u>
Decrease in Cash and Cash Equivalents	(44,167)
Cash and Cash Equivalents, Beginning of Year	<u>136,124</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 91,957</u></u>

Osteopathic Founders Foundation

Notes to Financial Statements

December 31, 2017

Note 1: Summary of Significant Accounting Policies

Nature of Operations

The Osteopathic Founders Foundation (the Foundation) was established in March 1943 as a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code. The mission of the Foundation is to promote general health, welfare and education in Tulsa, Oklahoma, and the surrounding northeast Oklahoma communities through activities related to osteopathic health care. The Foundation earns revenues from tuition and fees, contributions from members and the community, special events and income from investments.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017, cash equivalents consisted of money market accounts held with investment advisors.

At December 31, 2017, the Foundation had no cash accounts that exceeded federally insured limits.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or 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.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the accompanying statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Restricted endowment investment income and losses are recorded as temporarily restricted revenues unless the terms of the gift require that they be added to the principal of a permanent or term endowment fund. If the funds are temporarily restricted, any expenditure is subject to the intended use of the funds as indicated in the gift instrument.

Osteopathic Founders Foundation

Notes to Financial Statements

December 31, 2017

Furniture and Equipment

Furniture and equipment are stated at cost less accumulated depreciation. Accumulated depreciation was \$262,484 at December 31, 2017. Depreciation is charged to expense using the straight-line method over estimated useful lives from 3 to 20 years.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions. Gifts having donor stipulations that are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Other Current Assets

Other current assets are comprised of receivables arising from realized investment income that has been earned but not yet collected and prepaid expenses. Management believes all receivables reported in the accompanying statement of financial position to be fully collectible. Amounts determined to be uncollectible are charged to expense as that determination is made.

In-Kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions from various donors for an annual fundraising event. It is the policy of the Foundation to record the estimated fair value of certain in-kind donations as an expense in its financial statements and similarly increase contribution revenue by a like amount. For the year ended December 31, 2017, the Foundation received \$6,000 from in-kind donations.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the transfer date.

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2017

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in the U.S. federal jurisdiction.

Pledges Payable

The Foundation issues pledges to organizations who further the mission of the Foundation throughout the year. At the time funds are approved by the board and organizations are notified, the Foundation will record the corresponding liability. Pledges payable for the year ended December 31, 2017, were \$267,650.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities.

Long-Lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended December 31, 2017.

Note 2: Investments

Investments (including investments held in trusts) consist of the following at December 31, 2017:

Mutual funds	
U.S. equity funds	\$ 6,525,538
International equity funds	2,904,446
International fixed income funds	2,237,192
Bond funds	899,924
Emerging markets	274,356
Global	4,370,952
Alternative investments	2,572,558
Money market funds	219,479
	<hr/>
	<u>\$ 20,004,445</u>

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2017

Total investment return is comprised of the following at December 31, 2017:

Interest and dividend income	\$ 460,147
Net realized and unrealized gains on investments	<u>2,071,970</u>
	<u>\$ 2,532,117</u>

The Foundation includes its money market and cash accounts, which are held by financial advisors and available for the purchase of long-term securities, with investments in the accompanying statement of financial position.

Note 3: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; 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
- Level 3** Unobservable inputs supported by little or no market activity and significant to the fair value of the assets

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2017

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 219,479	\$ 219,479	\$ -	\$ -
Mutual funds				
U.S. equity funds	6,525,538	6,525,538	-	-
International equity funds	2,904,446	2,904,446	-	-
International fixed income funds	2,237,192	2,237,192	-	-
Bond funds	899,924	899,924	-	-
Emerging markets	274,356	274,356	-	-
Global	4,370,952	4,370,952	-	-
	17,431,887	<u>\$ 17,431,887</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at net asset value (a)	<u>2,572,558</u>			
	<u>\$ 20,004,445</u>			

- (a) In accordance with Accounting Standards Update (ASU) 2015-07 (amendments to Subtopic 820-10), certain investments that were measured at net asset value per share (or its equivalent) 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 line items presented in the accompanying statement of financial position.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2017.

Osteopathic Founders Foundation

Notes to Financial Statements

December 31, 2017

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the valuation hierarchy.

Alternative Investments

The Foundation values its alternative investments at fair value, which approximates the Foundation's pro rata interest in the net assets of the underlying alternative investments. Alternative investments are made up primarily of private equity funds that invest in underlying funds. The estimated fair values of the alternative investments are based on the underlying funds, which may include securities that do not have readily determinable values. Because of the inherent uncertainty of valuation, the estimated fair values of the alternative investments described above may differ significantly from values that would have been used had a ready market existed for the investments and differences could be material.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alliance Bernstein Multi-Manager Alternative Fund (a)	\$ 2,289,544	\$ -	None	None
Blackstone REIT (b)	\$ 283,014	\$ -	None	None

Underlying strategies of the above investments are as follows:

- (a) Statutory trusts, formed as a close-ended fund, invest primarily in portfolio funds of unaffiliated portfolio managers. These investments cannot be redeemed until a repurchase offer has been initiated by the fund's board of trustees.
- (b) Blackstone Real Estate Investment Trust, Inc., is a non-traded real estate investment trust (REIT) investing in primarily stabilized commercial real estate properties. These investments cannot be redeemed until a repurchase request has been submitted and approved by the fund's board of trustees.

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2017

Note 4: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at December 31, 2017. The beginning balance noted below is restated in *Note 10*.

	Beginning Balance	Contributions	Distributions	Investment Income	Ending Balance
Community support grants	\$ 943,841	\$ -	\$ (57,945)	\$ 154,634	\$ 1,040,530
Earnings from Gilberta Russell Fund	188,267	-	(42,674)	171,223	316,816
Beneficial interest in charitable remainder trusts	38,437	-	-	31,553	69,990
	<u>\$ 1,170,545</u>	<u>\$ -</u>	<u>\$ (100,619)</u>	<u>\$ 357,410</u>	<u>\$ 1,427,336</u>

Temporarily restricted net assets are available for the support of medical education scholarships and grants and medical education provided to the community. Substantially all restrictions can be met upon actions of the Foundation in accordance with donor stipulation. Permanently restricted net assets consist primarily of an endowment fund maintained by the Foundation in perpetuity. The income from the assets not restricted by donors can be used to support the Foundation's general activities.

Note 5: Beneficial Interest in Trusts

The Foundation is the beneficiary under three charitable remainder unitrusts (Trusts 1, 2 and 3) that are administered by the Foundation. Under the terms of the trusts, the Foundation has an irrevocable right to the principal and income from the trusts upon the death of the survivor recipient. For the life of the survivor recipient, the Foundation is to pay 8% of the fair market value of the trusts, valued as of the first day of each taxable year. Payments of the unitrust amounts may only be made from income, and any deficiencies will be accrued and paid in years where there is excess income over the 8% unitrust amounts.

The Foundation is the beneficiary under another charitable remainder unitrust (Trust 4) that is administered by the Foundation. Under the terms of the trust, the Foundation has an irrevocable right to the principal and income from the trust upon the earlier of the death of the survivor recipient or 20 years. For the term of the trust, the Foundation is to pay 8% of the fair market value of the trust, valued as of the first day of each taxable year. Payments of the unitrust amount may only be made from income, and any deficiencies will be accrued and paid in years where there is excess income over the 8% unitrust amount.

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2017

Balances of all trust assets and liabilities at December 31, 2017, are reflected in the accompanying financial statements as follows:

	<u>Trust 1</u>	<u>Trust 2</u>	<u>Trust 3</u>	<u>Trust 4</u>	<u>Total</u>
Fair market value of trust assets	\$ 171,405	\$ 171,405	\$ 86,969	\$ 171,405	\$ 601,184
Unitrust liabilities payable	88,172	88,188	47,880	88,188	312,428
Future liability for unitrust distributions	<u>107,571</u>	<u>81,354</u>	<u>41,762</u>	<u>13,270</u>	<u>243,957</u>
	<u>195,743</u>	<u>169,542</u>	<u>89,642</u>	<u>101,458</u>	<u>556,385</u>
Remaining beneficial interest	<u>\$ (24,338)</u>	<u>\$ 1,863</u>	<u>\$ (2,673)</u>	<u>\$ 69,947</u>	<u>\$ 44,799</u>

During the year ended December 31, 2017, the Foundation paid approximately \$25,000 in distributions to unitrust beneficiaries from current year investment income.

Note 6: Deferred Contribution Plan

In 2001, the Foundation adopted a nonqualified executive deferred compensation plan (the Plan). The Plan allows the participant to defer bonus compensation through contributions to the Plan. The Plan provides benefits upon death, retirement or termination of employment. Benefits are limited to the amounts contributed to the Plan. Vesting of bonus compensation awarded prior to August 15, 2013, occurs at 10% per year from ages 60 to 64 with the remainder vesting at age 65. Bonus compensation awarded after August 15, 2013, becomes fully vested five years after the date the bonus compensation is awarded by the Board of Trustees of the Foundation. The Foundation has set aside funds for the payment of this liability that are included in investments in the accompanying statement of financial position. No expenses were recognized regarding the Plan for the year ended December 31, 2017.

Note 7: Endowment

The Foundation's endowment consists of approximately four individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Osteopathic Founders Foundation

Notes to Financial Statements

December 31, 2017

The Foundation's governing body has interpreted the *Oklahoma Prudent Management of Institutional Funds Act* (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result 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 donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The composition of net assets by type of endowment fund at December 31, 2017, was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,357,346	\$ 965,980	\$ 2,323,326
Board-designated endowment funds	<u>1,721,251</u>	<u>-</u>	<u>-</u>	<u>1,721,251</u>
Total endowment funds	<u>\$ 1,721,251</u>	<u>\$ 1,357,346</u>	<u>\$ 965,980</u>	<u>\$ 4,044,577</u>

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2017

Changes in endowment net assets for the year ended December 31, 2017, were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,561,662	\$ 1,132,108	\$ 965,980	\$ 3,659,750
Investment return				
Investment income	76,742	99,329	-	176,071
Net appreciation	143,391	226,528	-	369,919
Total investment return	220,133	325,857	-	545,990
Distributions	(60,544)	(100,619)	-	(161,163)
Endowment net assets, end of year	<u>\$ 1,721,251</u>	<u>\$ 1,357,346</u>	<u>\$ 965,980</u>	<u>\$ 4,044,577</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies at December 31, 2017.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Foundation's policies, endowment assets are invested in a manner that is consistent with the total return or moderate portfolio theory methodologies.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). 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 constraints.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year a rate of 5%, with an absolute maximum of 5% of the endowment fund's average market value as of the preceding five fiscal year-ends. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow comparable to the benchmarks outlined in the investment policy. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return. In 2017, the Foundation did not appropriate any endowment funds as provided by the spending policy.

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2017

Note 8: Operating Lease

The Foundation leases its office space under an operating lease that expires on August 31, 2021. Total lease expense was approximately \$75,000 for the year ended December 31, 2017. Future minimum obligations under the Foundation's office lease are as follows:

2018	\$	75,293
2019		75,877
2020		77,628
2021		52,530
		<u>281,328</u>
	\$	<u>281,328</u>

Note 9: Postretirement Benefit Plan

Defined Contribution Plan

Effective October 1, 2012, the Foundation began contributing to a defined contribution pension plan covering all employees who receive at least \$5,000 in eligible compensation for the prior year and current year. The Foundation matches employee contributions dollar-for-dollar not to exceed 3% of eligible compensation or the applicable limit. The Foundation's expense related to matching contributions for the year ended December 31, 2017, was \$5,200.

Note 10: Restatement of Prior Year Financial Statements

The 2016 reviewed financial statements have been restated for a misstatement of \$52,632 in the classification of net assets. This restatement increases the previously reported 2016 change in net assets by \$17,693. The following financial statement line items for fiscal year 2016 were affected by the correction:

	As Restated	As Previously Reported	Effect of Change
Statement of Activities			
Unrestricted net assets, beginning of year	\$ 14,944,095	\$ 15,028,031	\$ (83,936)
Temporarily restricted net assets, beginning of year	\$ 1,170,545	\$ 1,139,241	\$ 31,304
Total net assets, beginning of year	\$ 17,080,620	\$ 17,133,252	\$ (52,632)

Note 11: Subsequent Events

The Foundation has evaluated subsequent events through September 12, 2018, which is the date the financial statements were available to be issued.