

Masonic Charity Foundation of Oklahoma

Financial Report
December 31, 2015

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Masonic Charity Foundation of Oklahoma
Edmond, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Masonic Charity Foundation of Oklahoma, which comprise the statements of assets, liabilities and fund balances—modified cash basis as of December 31, 2015 and 2014, and the related statements of support and revenue collected and expenses paid and changes in fund balances—modified cash basis for the years then ended and the related notes to the financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of Masonic Charity Foundation of Oklahoma as of December 31, 2015, and its revenue collected and expenses paid and changes in fund balances for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter***Summarized Comparative Information***

The prior year's summarized comparative information has been derived from the December 31, 2014 financial statements audited by us and our report was dated September 3, 2015. We expressed an unmodified opinion on those financial statements which were fairly presented, in all material respects, in accordance with the modified cash basis of accounting described in Note 1.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Oklahoma City, Oklahoma
September 9, 2016

Masonic Charity Foundation of Oklahoma

**Statements of Assets, Liabilities and Fund Balances—Modified Cash Basis
Year Ended December 31, 2015 (With Comparative Totals for 2014)**

	2015	2014
Assets Recognized		
Unrestricted:		
Cash and cash equivalents	\$ 976,025	\$ 4,188,822
Investments	-	9,404,676
Property and equipment, net of accumulated depreciation	324,762	337,139
Total unrestricted assets	1,300,787	13,930,637
Restricted:		
Cash and cash equivalents	1,466,421	1,179,390
Investments	85,154,322	77,202,436
Other	13,647	13,644
Total restricted assets	86,634,390	78,395,470
Total assets recognized	\$ 87,935,177	\$ 92,326,107
Liabilities and Fund Balances		
Fund balances recognized:		
Unrestricted:		
Foundation General Fund	1,378,452	13,773,582
Education General Fund	(77,665)	157,055
Total unrestricted funds	1,300,787	13,930,637
Restricted:		
Foundation Endowment Fund	82,593,343	74,999,874
Education Endowment Fund	4,041,047	3,395,596
Total restricted funds	86,634,390	78,395,470
Total fund balances recognized	87,935,177	92,326,107
Total liabilities and fund balances recognized	\$ 87,935,177	\$ 92,326,107

See notes to financial statements.

Masonic Charity Foundation of Oklahoma

Statement of Support and Revenue Collected and Expenses Paid and Changes in Fund Balances—Modified Cash Basis Year Ended December 31, 2015 (With Comparative Totals for 2014)

	Unrestricted			Restricted			Total 2015	Total 2014
	Foundation General Fund	Education General Fund	Total Unrestricted	Foundation Endowment Fund	Education Endowment Fund	Total Restricted		
Support and revenue collected:								
Interest and dividends	\$ 2,863,448	\$ 136,304	\$ 2,999,752	\$ -	\$ -	\$ -	\$ 2,999,752	\$ 3,994,282
Bequests	-	-	-	793,204	5,573	798,777	798,777	2,413,784
Voluntary contributions	-	-	-	22,894	-	22,894	22,894	21,809
Entered apprentice fees	-	-	-	7,711	-	7,711	7,711	7,651
Oil and gas royalties	829,326	-	829,326	-	-	-	829,326	1,610,406
Realized and unrealized gain (loss) on investments	(3,737,254)	(243,132)	(3,980,386)	-	-	-	(3,980,386)	5,421,903
Miscellaneous	878	-	878	-	-	-	878	33,872
Total support and revenue collected	(43,602)	(106,828)	(150,430)	823,809	5,573	829,382	678,952	13,503,707
Expenses paid:								
Management and general expenses	(1,032,429)	(8,142)	(1,040,571)	-	-	-	(1,040,571)	(984,781)
Matching funds	(1,566,157)	-	(1,566,157)	-	-	-	(1,566,157)	(1,659,064)
Other grants and donations	(1,108,064)	-	(1,108,064)	-	-	-	(1,108,064)	(1,116,684)
Scholarships	-	(119,750)	(119,750)	-	-	-	(119,750)	(144,750)
Promises Matter	(88,415)	-	(88,415)	-	-	-	(88,415)	(87,078)
Edgar M. Woody expenditures for the aged	(1,016,330)	-	(1,016,330)	-	-	-	(1,016,330)	(925,509)
Depreciation	(23,238)	-	(23,238)	-	-	-	(23,238)	(23,466)
Private foundation taxes	(107,357)	-	(107,357)	-	-	-	(107,357)	(50,000)
Total expenses	(4,941,990)	(127,892)	(5,069,882)	-	-	-	(5,069,882)	(4,991,332)
Excess (deficiency) of support and revenue collected over expenses paid	(4,985,592)	(234,720)	(5,220,312)	823,809	5,573	829,382	(4,390,930)	8,512,375
Transfer between funds	(7,409,538)	-	(7,409,538)	6,769,660	639,878	7,409,538	-	-
Fund balances at beginning of year	13,773,582	157,055	13,930,637	74,999,874	3,395,596	78,395,470	92,326,107	83,813,732
Fund balances at end of year	\$ 1,378,452	\$ (77,665)	\$ 1,300,787	\$ 82,593,343	\$ 4,041,047	\$ 86,634,390	\$ 87,935,177	\$ 92,326,107

See notes to financial statements.

Masonic Charity Foundation of Oklahoma

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Organization: The Masonic Charity Foundation of Oklahoma (the Foundation) is a charitable organization established by the Most Worshipful Grand Lodge of Ancient Free and Accepted Masons of the State of Oklahoma (the Grand Lodge) to accept and manage gifts and bequests made to the Foundation for the support of charitable activities of the Foundation conducted throughout Oklahoma. The Foundation's primary source of revenue is bequests and investment earnings.

Basis of accounting: The Foundation maintains its records and prepares its financial statements on the modified cash basis of accounting. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly revenue are recognized when received rather than when earned, and grants made and operating expenses are recognized when paid rather than when the obligation is incurred.

The modified cash basis of accounting differs from U.S. GAAP in the following significant respects: a) the Foundation's unconditional grants to be paid in future years would be recognized when paid rather than when approved by the board of directors, b) accounts receivable, accounts payables, and other accrued expenses, including pension obligations, are not recorded as revenue earned or expenses incurred c) no liability would be recorded for uncertain tax position, if any, in accordance with FASB guidance on uncertain tax position.

The Foundation follows the principles of fund accounting, which reflect limitations or restrictions on the use of available resources by classifying such resources in funds associated with specified activities or objectives. The funds used by the Foundation do not necessarily present its financial information in the same manner as would be presented if the Foundation followed U.S. GAAP for (a) Accounting for Contributions Received and Made and (b) Financial Statements of Not-for-Profit Organizations. U.S. GAAP requires not-for-profit organizations to report their activities and related net assets based on third-party restrictions. The funds used by the Foundation do consider third-party restrictions; however, the Foundation's restricted funds also consider internal restrictions placed on contributions which, under U.S. GAAP, would be considered unrestricted.

The financial statements include certain prior-year summarized comparative information in total, but not by fund classification. Such information does not include sufficient detail to constitute a presentation in conformity with the modified cash basis of accounting. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2014, from which the summarized information was obtained.

The funds used by the Foundation are the Foundation General Fund, Education General Fund, Foundation Endowment Fund and Education Endowment Fund.

The unrestricted funds for the Foundation include the Foundation General Fund and the Education General Fund. These funds are designed to account for resources that are expended for the overall support of the Foundation, which includes the purchases of property and equipment and the support of the Foundation's education and other charitable operations.

The restricted funds for the Foundation include the Foundation Endowment Fund and the Education Endowment Fund. The Foundation Endowment Fund is comprised of resources received by gift, devise, bequest, or otherwise. The bylaws of the Foundation prohibit the expenditure of the Endowment Fund principal. The income earned, including realized and unrealized investment gains, from the restricted investments is included in the Foundation General Fund.

Masonic Charity Foundation of Oklahoma

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Proceeds from the Edgar M. Woody Trust were received during 2006 and are subject to the following restrictions as outlined in a "Journal Entry" filed in the District Court of Oklahoma County:

- The Foundation will hold and administer the Edgar M. Woody funds as segregated restricted funds;
- Beginning in 2006 and continuing each year thereafter, the Foundation will use or distribute, for direct services to the elderly, an amount equal to five percent (5 percent) of the net market value of the Edgar M. Woody Fund as of the preceding year end;
- Distributions by the Foundation from the Edgar M. Woody Fund for direct services to the elderly shall first be made to members of the Masonic family who are fifty-five (55) years of age or older; and
- The Foundation is required to account to the District Court of Oklahoma County, Oklahoma by February 15 of each year, beginning February 15, 2007, for its administration of the Aged Fund, which will be subject to the approval of the Court.

At December 31, 2015, \$762,278 of Edgar M. Woody trust funds is included in the Foundation General Fund, which represents cumulative earnings of the Edgar M. Woody Trust in excess of related disbursements. The balance of the Edgar M. Woody Trust, \$13,494,515, represents the original contribution and is included in the Foundation Endowment Fund.

The Education Endowment Fund is comprised of donations that are invested for the education program's use. Income from the investments is transferred to the Education General Fund and is available to pay for awarded scholarships.

Cash equivalents: The Foundation considers all highly liquid investments with an original maturity of three months or less when purchased, including cash and money market funds maintained in equity-based investment accounts, to be cash equivalents.

Investments: Investments in equity and debt securities are stated at fair value, with net realized and unrealized gains (losses) reflected in the statement of support and revenue collected and expenses paid and changes in fund balance-modified cash basis. Securities and other investments are managed by various investment managers. Substantially all investments are held under a master custodial arrangement.

Investment securities are exposed to various risk, such as interest rate, market and credit risk. Such credit risk is considered by management to be limited due to the financial stability of the institutions managing the funds, and the dispersion both in geography and industry of the investments. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in value of investment securities will occur in the near term and in such amounts that could be material.

Masonic Charity Foundation of Oklahoma

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Fair value measurements: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Inputs that are derived principally from or corroborated by observable market data

Level 3: Inputs that are unobservable and significant to the overall fair value measurement

Financial assets and liabilities subject to fair value measurement disclosure requirements are limited to the Foundation's investments (see Note 2).

Concentration of credit risk: The Foundation maintains cash in bank deposit accounts that, at times, may exceed federally insured limits. 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.

Property and equipment: Expenditures for property and equipment that exceed the Foundation's capitalization policy threshold of \$5,000 are capitalized at cost and are depreciated on the straight-line basis over their estimated useful lives as follows:

Vehicles	5 years
Buildings and improvements	10 – 40 years
Office furniture and equipment	5 – 10 years

When assets are sold or retired, the costs of the assets and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in operations.

Contributed noncash assets: Royalty mineral rights interests, real estate, noncash bequests and life insurance policies are recorded at a nominal value of \$1 when received. Revenue is recognized when cash is received upon the sale or realization of such assets.

The Foundation's policy is not to sell its royalty mineral rights interests. No provision is made for depletion of mineral properties, and no asset is recognized for mineral reserves.

Income taxes: The Foundation was formed exclusively for charitable purposes as defined by Section 501(c)(3) of the Internal Revenue Code of 1986. As a not-for-profit organization, the Foundation is not subject to income taxes on normal operations. It is management's belief that the Foundation continues to qualify as a not-for-profit organization. During 2010, the Foundation lost its public charity status, as it failed the facts and circumstances test required by the Internal Revenue Code. As a result, the Foundation is now subject to a 1 percent or 2 percent excise tax on net investment income. In addition, a 30 percent excise tax is imposed on the Foundation if it fails to distribute significantly all of its minimum investment return to qualified beneficiaries before the end of the next tax year and a 100 percent tax if it fails to distribute its minimum investment return before the end of the second tax year. The 100 percent tax is not payable until ninety days after it is assessed by the Internal Revenue Service. If the Foundation distributes the accumulated income within ninety days after the 100 percent penalty is assessed, the penalty will be waived. During 2015, the Foundation paid \$107,357 of excise tax to the Internal Revenue Service.

Masonic Charity Foundation of Oklahoma

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Management has evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that require disclosure in the financial statements. With few exceptions, the Foundation is not subject to examination by any tax jurisdiction for years prior to 2012. Currently, the Foundation is not subject to examination by any major tax jurisdictions.

Use of estimates: The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Subsequent events: Management has evaluated subsequent events through September 9, 2016, the date the financial statements were available to be issued. There were no subsequent events requiring disclosure.

Note 2. Investments and Fair Value Measurements

The Foundation has no liabilities measured at fair value on a recurring basis. Assets measured at fair value on a recurring basis are limited to the Foundation's investments and are classified within the fair value hierarchy as follows:

Assets	As of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Materials	\$ 625,364	\$ -	\$ -	\$ 625,364
Industrials	2,577,095	-	-	2,577,095
Telecommunication	249,041	-	-	249,041
Consumer discretion	1,349,085	-	-	1,349,085
Consumer staples	884,458	-	-	884,458
Energy	1,616,438	-	-	1,616,438
Financials	3,750,448	-	-	3,750,448
Healthcare	2,235,113	-	-	2,235,113
Information technology	3,775,551	-	-	3,775,551
Utilities	60,964	-	-	60,964
International equity fund	12,213,244	-	-	12,213,244
Open end mutual fund	16,905,693	-	-	16,905,693
Limited partnership	-	4,196,981	-	4,196,981
Fixed income:				-
Corporate bonds	-	22,866	-	22,866
U.S. government obligations	-	30,752,521	-	30,752,521
Certificates of deposit	-	284,486	-	284,486
Preferred stock	-	3,654,974	-	3,654,974
Total assets carried at fair value	\$ 46,242,494	\$ 38,911,828	\$ -	\$ 85,154,322

Masonic Charity Foundation of Oklahoma

Notes to Financial Statements

Note 2. Investments and Fair Value Measurements (Continued)

Following is a description of methodologies used for instruments measured at fair value on a recurring basis.

Equity securities: Quoted prices for equity securities are obtained from active markets such as the NYSE or NASDAQ, and as a result, equity securities are classified within Level 1 of the hierarchy.

Corporate bonds, U.S. government obligations, preferred stock, and certificates of deposit: These are classified within Level 2 of the hierarchy due to their proprietary nature, and the fair values of investments are based on bid prices published in financial newspapers or bid quotations received from securities dealers. The fair value of certain securities are not readily available through market sources other than dealer quotations, so fair value estimates are based on quoted market prices of similar instruments, adjusted for the differences between the quoted instruments and the instruments being valued.

Maturity dates of U.S. government securities and corporate bonds range from 2021 to 2045.

Limited partnerships: These are carried at fair value which is based on the NAV per share as provided by the fund manager. The Foundation uses management agreements, audited financial statements and underlying investment holdings to evaluate the fund manager's valuation methodology (i.e., in determining whether the fund manager follows ASC 820) and determine if any adjustment to the NAV is necessary. The Foundation has the ability to redeem its investment at NAV with written notice 30 days prior to the last business day of each quarter and, as a result, the fair value measurement is categorized as Level 2. As of December 31, 2015, the Foundation has no unfunded commitments related to its investment in the limited partnership.

Note 3. Property and Equipment

Property and equipment at December 31, 2015, are summarized as follows:

Land	\$	147,457
Building		359,833
Parking lot		20,987
Automobiles		38,781
Furniture, fixtures and equipment		64,867
		<hr/>
		631,925
Less accumulated depreciation		307,163
		<hr/>
	\$	<u>324,762</u>

Note 4. Pension Plan

On January 1, 1984, the Foundation adopted a defined benefit pension plan (the Plan), which covers all employees who have attained the age of 21 and completed 12 months of service. Effective January 1, 2012, the Plan was amended. The information included in hereafter describes the benefits based on the January 1, 2012, amended plan documents. Benefits under the Plan will accrue in an amount equal to 2.0 percent of the employee's average annual compensation for each year of credited service up to a maximum of 40 years. Benefits under the Plan vest 100 percent after five years of service.

Masonic Charity Foundation of Oklahoma

Notes to Financial Statements

Note 4. Pension Plan (Continued)

As discussed in Note 1, the Foundation prepares its financial statements on a modified cash basis. The Foundation does not report a pension obligation or asset. Pension expense is based on amounts contributed to the Plan rather than on the actuarially determined amount based on services performed.

The summary plan information presented below was calculated utilizing the unit benefit nonintegrated method of actuarial valuation. The actuarial present value of the projected benefits to participants of the Plan includes one employee who retired prior to adoption of the Plan.

The projected benefit obligation and net assets available for those benefits as of the latest actuarial valuation date of December 31, 2015, are as follows:

Actuarial present value of projected plan benefits:	
Accumulated (earned) benefits	\$ 2,806,857
Expected benefits subject to future services	425,233
	<u>\$ 3,232,090</u>
 Total plan assets	 <u>\$ 2,543,973</u>

As of December 31, 2015, the Plan's assets available for plan benefits were less than the accumulated (i.e., earned) plan benefits by \$262,884. The Plan's assets are invested in cash—\$57,654, government securities—\$1,251,222 and mutual funds—\$1,235,096. Unfunded benefits, including expected benefits subject to future services, will be funded by the Foundation based on required minimum funding outlined in the Pension Protection Act of 2006. For 2015, a minimum contribution of \$148,970 has been required if made no than December 31, 2016. It is the intention of the Foundation to make the required contribution during 2016.

In determining the actuarially present value of the projected plan benefits, the following assumptions were used: (a) weighted-average discount rate of 6.06 percent and (b) rate of increase in future compensation levels of 0 percent.

During the 2015 Plan year, the Foundation made \$104,612 contributions to the Plan. Benefits paid and administrative-related expenses were approximately \$170,713 and \$24,959 for 2015, respectively.

Note 5. Commitments

Effective June 30, 2008, the Foundation entered into an employment agreement with an officer of the Foundation. The agreement stipulates an annual base salary, which may be adjusted annually for (a) cost of living adjustments based on Bureau Labor Statistics Southwest Statistical Summary Consumer Price Index for All Urban Consumers and (b) annual evaluation based on performance at the board of directors' discretion. The board of directors approved an amendment to the agreement in September 2015 with an effective date of January 1, 2016. The remaining commitment under the term of this amended agreement is approximately \$851,000 as of December 31, 2015.

Masonic Charity Foundation of Oklahoma

**Supplemental Edgar M. Woody Fund Statement of Support and Revenue Collected and Expenses
and Changes in Fund Balances—Modified Cash Basis
Year Ended December 31, 2015**

Support and revenue collected:	
Interest and dividends	\$ 489,832
Oil and gas royalties	232,864
Realized and unrealized losses on investments	(695,507)
Total support and revenue collected	<u>27,189</u>
Expenses:	
Management and general expenses	58,002
Matching funds	67,498
Edgar M. Woody expenditures for the aged	1,016,330
Total expenses	<u>1,141,830</u>
Excess of expenses over support and revenue collected	(1,114,641)
Fund balance at beginning of year	<u>15,371,434</u>
Fund balance at end of year	<u><u>\$ 14,256,793</u></u>

