

**The American Association of  
Petroleum Geologists Foundation  
Financial Report  
June 30, 2014 and 2013**

**The American Association of Petroleum Geologists Foundation  
Financial Statements  
June 30, 2014 and 2013**

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### Independent Auditors' Report

The Trustees  
The American Association of Petroleum Geologists Foundation  
Tulsa, Oklahoma

We have audited the accompanying financial statements of The American Association of Petroleum Geologists Foundation (the "Foundation"), a nonprofit organization, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, 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.

#### **Auditors' 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 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 The American Association of Petroleum Geologists Foundation as of June 30, 2014 and 2013, 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.

*Hartog, Kallenberger & Swarthout, PLLC*

Certified Public Accountants  
Tulsa, Oklahoma  
May 18, 2015

**The American Association of Petroleum Geologists Foundation**  
**Statements of Financial Position**  
**June 30, 2014 and 2013**

Assets		
	<b>2014</b>	2013
<b>Current assets</b>		
Cash and cash equivalents	<b>\$ 347,857</b>	\$ 188,139
Accounts receivable		
Interest and dividends	<b>16,173</b>	16,173
Due from the American Association of Petroleum Geologists	<b>120,053</b>	243,779
Other	<b>11,252</b>	21,021
Prepaid expenses	<b>23,442</b>	14,077
Total current assets	<b>518,777</b>	483,189
<b>Non-current assets</b>		
Property and equipment, less accumulated depreciation	<b>2,241,240</b>	2,270,522
Investments	<b>47,907,272</b>	42,935,827
Total non-current assets	<b>50,148,512</b>	45,206,349
Total assets	<b>\$ 50,667,289</b>	\$ 45,689,538
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Due to the American Association of Petroleum Geologists	<b>\$ 344,346</b>	\$ 442,919
Accounts payable and other	<b>38,028</b>	45,099
Total current liabilities	<b>382,374</b>	488,018
<b>Net assets</b>		
Permanently restricted	<b>8,920,727</b>	8,129,195
Temporarily restricted	<b>2,104,582</b>	2,076,277
Unrestricted		
Board Designated	<b>12,562,598</b>	12,079,276
Other	<b>26,697,008</b>	22,916,772
Total net assets	<b>50,284,915</b>	45,201,520
Total liabilities and net assets	<b>\$ 50,667,289</b>	\$ 45,689,538

See accompanying summary of accounting policies and notes to the financial statements.

**The American Association of Petroleum Geologists Foundation**  
**Statement of Activities**  
**For the Year Ended June 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support, investment and other income				
Support income				
Contributions	\$ 529,755	\$ 15,380	\$ 791,532	\$ 1,336,667
Awards, grants and other	13,187	-	-	13,187
Total support income	<u>542,942</u>	<u>15,380</u>	<u>791,532</u>	<u>1,349,854</u>
Investment income				
Securities investments, less advisory expenses of \$121,574	5,619,197	268,625	-	5,887,822
Partnership and alternative investments	(195,323)	(9,337)	-	(204,660)
Oil and gas royalties	150,397	-	-	150,397
Building rent, less expenses of \$319,343	(61,082)	-	-	(61,082)
Total investment income	<u>5,513,189</u>	<u>259,288</u>	<u>-</u>	<u>5,772,477</u>
Other income				
Net assets released from purpose restrictions	246,363	(246,363)	-	-
Total other income	<u>246,363</u>	<u>(246,363)</u>	<u>-</u>	<u>-</u>
Total support, investment and other income	<u>6,302,494</u>	<u>28,305</u>	<u>791,532</u>	<u>7,122,331</u>
Expenses				
Program services	1,588,919	-	-	1,588,919
Supporting services				
Fundraising	127,560	-	-	127,560
Management and general	322,457	-	-	322,457
Total supporting services	<u>450,017</u>	<u>-</u>	<u>-</u>	<u>450,017</u>
Total expenses	<u>2,038,936</u>	<u>-</u>	<u>-</u>	<u>2,038,936</u>
Change in net assets	4,263,558	28,305	791,532	5,083,395
Net assets - beginning of year	34,996,048	2,076,277	8,129,195	45,201,520
Net assets - end of year	<u>\$ 39,259,606</u>	<u>\$ 2,104,582</u>	<u>\$ 8,920,727</u>	<u>\$ 50,284,915</u>

See accompanying summary of accounting policies and notes to the financial statements.

**The American Association of Petroleum Geologists Foundation**  
**Statement of Activities**  
**For the Year Ended June 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support, investment and other income				
Support income				
Contributions	\$ 1,969,954	\$ 385,171	\$ 342,413	\$ 2,697,538
Awards, grants and other	3,220	-	-	3,220
Total support income	<u>1,973,174</u>	<u>385,171</u>	<u>342,413</u>	<u>2,700,758</u>
Investment income				
Securities investments, less advisory expenses of \$160,976	2,814,650	243,834	-	3,058,484
Partnership and alternative investments	1,493,790	129,408	-	1,623,198
Oil and gas royalties	137,552	-	-	137,552
Building rent, less expenses of \$315,232	(57,848)	-	-	(57,848)
Total investment income	<u>4,388,144</u>	<u>373,242</u>	<u>-</u>	<u>4,761,386</u>
Other income				
Net assets released from purpose restrictions	240,798	(240,798)	-	-
Total other income	240,798	(240,798)	-	-
Total support, investment and other income	<u>6,602,116</u>	<u>517,615</u>	<u>342,413</u>	<u>7,462,144</u>
Expenses				
Program services	1,763,837	-	-	1,763,837
Supporting services				
Fundraising	161,162	-	-	161,162
Management and general	323,214	-	-	323,214
Total supporting services	<u>484,376</u>	<u>-</u>	<u>-</u>	<u>484,376</u>
Total expenses	<u>2,248,213</u>	<u>-</u>	<u>-</u>	<u>2,248,213</u>
Change in net assets	4,353,903	517,615	342,413	5,213,931
Net assets - beginning of year	30,642,145	1,558,662	7,786,782	39,987,589
Net assets - end of year	<u>\$ 34,996,048</u>	<u>\$ 2,076,277</u>	<u>\$ 8,129,195</u>	<u>\$ 45,201,520</u>

See accompanying summary of accounting policies and notes to the financial statements.

**The American Association of Petroleum Geologists Foundation**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Increase (decrease) in net assets	<b>\$ 5,083,395</b>	\$ 5,213,931
Adjustments to reconcile changes in net assets to net cash		
Donated stock	<b>(235,050)</b>	(23,740)
Non-operating gifts	<b>(791,532)</b>	(342,413)
Depreciation	<b>171,602</b>	171,938
Net unrealized (gain) on investments	<b>(4,613,770)</b>	(338,165)
(Gain) on sales of investments	<b>(566,747)</b>	(2,254,897)
Partnership operating (income) loss	<b>204,660</b>	(1,543,229)
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	<b>9,769</b>	23,182
Due from the American Association of Petroleum Geologists	<b>123,726</b>	(164,307)
Prepaid expenses	<b>(9,365)</b>	24,297
(Decrease) increase in		
Accounts payable	<b>(7,071)</b>	(39,306)
Due to the American Association of Petroleum Geologists	<b>(98,573)</b>	(351,543)
Net cash provided (used) by operating activities	<b>(728,956)</b>	375,748
Cash flows from investing activities		
Proceeds from sale of investments	<b>11,685,451</b>	23,309,918
Purchase of investments	<b>(11,588,309)</b>	(24,159,142)
Net cash provided (used) by investing activities	<b>97,142</b>	(849,224)
Cash flows from financing activities		
Proceeds from permanently restricted contributions	<b>791,532</b>	342,413
Net cash provided (used) by financing activities	<b>791,532</b>	342,413
Net increase (decrease) in cash and cash equivalents	<b>159,718</b>	(131,063)
Cash and cash equivalents - beginning of year	<b>188,139</b>	319,202
Cash and cash equivalents - end of year	<b>\$ 347,857</b>	\$ 188,139

See Note 10 for supplemental disclosures of cash flow information.

See accompanying summary of accounting policies and notes to the financial statements.

**The American Association of Petroleum Geologists Foundation**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2014**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 198,536	\$ 200,973	\$ 30,669	\$ 430,178
Contract personnel	-	3,943	-	3,943
Awards, grants and joint programs	1,118,963	-	-	1,118,963
Depreciation	-	13,232	-	13,232
Bank and investment fees	2,161	8,805	-	10,966
Janitorial	-	2,450	-	2,450
Repairs and maintenance	-	2,279	-	2,279
Professional fees	41,063	32,980	3,521	77,564
Utilities	-	5,102	-	5,102
Insurance	-	2,587	-	2,587
Advertising	7,012	-	39,117	46,129
Printing	9,252	8,107	-	17,359
Postage and shipping	3,543	4,270	2,300	10,113
Office supplies and expense	475	4,756	37,721	42,952
Computer costs	3,800	3,314	-	7,114
Travel, meals and entertainment	128,298	-	-	128,298
Publication costs	1,773	-	-	1,773
Overhead charge from AAPG	55,212	29,628	14,232	99,072
Audio visual	-	-	-	-
Miscellaneous	18,831	31	-	18,862
	<u>\$ 1,588,919</u>	<u>\$ 322,457</u>	<u>\$ 127,560</u>	<u>\$ 2,038,936</u>
Total expenses	<u>\$ 1,588,919</u>	<u>\$ 322,457</u>	<u>\$ 127,560</u>	<u>\$ 2,038,936</u>

See accompanying summary of accounting policies and notes to the financial statements.



**The American Association of Petroleum Geologists Foundation**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2013**

	Program Services	General and Administrative	Fundraising	Total
Salaries and benefits	\$ 171,422	\$ 144,307	\$ 31,090	\$ 346,819
Contract personnel	-	3,994	-	3,994
Awards, grants and joint programs	1,294,880	-	-	1,294,880
Depreciation	-	13,272	-	13,272
Bank and investment fees	4,050	7,609	-	11,659
Janitorial	-	3,731	-	3,731
Repairs and maintenance	-	1,946	-	1,946
Professional fees	74,771	94,451	5,709	174,931
Utilities	-	4,528	-	4,528
Insurance	-	2,551	-	2,551
Advertising	16,455	-	32,068	48,523
Booth space	-	-	787	787
Printing	-	1,761	-	1,761
Postage and shipping	2,597	4,900	4,716	12,213
Office supplies and expense	181	9,038	69,569	78,788
Travel, meals and entertainment	129,839	-	-	129,839
Publication costs	2,264	-	-	2,264
Overhead charge from AAPG	54,224	30,265	17,223	101,712
Audio visual	3,715	-	-	3,715
Miscellaneous	9,439	861	-	10,300
	<u>\$ 1,763,837</u>	<u>\$ 323,214</u>	<u>\$ 161,162</u>	<u>\$ 2,248,213</u>
Total expenses	<u>\$ 1,763,837</u>	<u>\$ 323,214</u>	<u>\$ 161,162</u>	<u>\$ 2,248,213</u>

See accompanying summary of accounting policies and notes to the financial statements.

**The American Association of Petroleum Geologists Foundation**  
**Summary of Accounting Policies**  
**June 30, 2014 and 2013**

**Organization and programs**

The American Association of Petroleum Geologists Foundation (the "Foundation") was created in 1967 as a trust established for educational, scientific and charitable purposes.

**Fund accounting**

The accounts of the Foundation are organized by funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund balances, revenues and expenses.

**Contributions**

Contributions are reported as temporarily restricted revenue if they are received with donor stipulations that limit the use of the contribution. When the stipulations are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Foundation classifies donor-restricted contributions as unrestricted support if the restrictions are satisfied in the same reporting period in which the contribution is received. Contributions are reported as permanently restricted revenue if they are received with donor stipulations that they be held permanently. At June 30, 2014 and 2013, the Foundation had conditional promises receivable totaling \$2,723,570 and \$2,918,923, respectively. Additionally at June 30, 2014, the Foundation was designated as the beneficiary in various legacy pledges totaling \$7,885,000.

**Inventory**

Publications inventory is valued at the lower of average cost or market. The inventory valuation excludes publications not expected to be sold within ten years from the date of publication.

**Property, equipment and depreciation**

Property and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the assets by the straight-line method. Property and equipment having estimated lives in excess of one year are capitalized.

**Investments**

Investments in marketable securities are stated at market values based on quoted market prices. Partnerships and alternative investments are stated at estimated fair values determined by the general partner or investment manager based on the estimated proceeds that would be realized assuming liquidation of the net assets of the entities.

**Estimates**

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**The American Association of Petroleum Geologists Foundation**  
**Summary of Accounting Policies**  
**June 30, 2014 and 2013**

**Tax status**

The Foundation is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1954. The Foundation is not classified as a private foundation.

Accounting principles generally accepted in the United States of America require Foundation management to evaluate tax positions taken by the Foundation and recognize a tax liability (or asset) if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Foundation's management has analyzed the tax positions taken by the organization, and has concluded that as of June 30, 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Foundation's management believes the organization is no longer subject to income tax examinations for years prior to 2011.

**Cost allocation**

The Foundation and the American Association of Petroleum Geologists (the "Association") have common support-service personnel. Salaries, employee benefits, and other overhead costs for such personnel are allocated between the Foundation and the Association based on time chargeable to each organization. The Foundation and the Association share office space in the Lewis G. Weeks Energy Resources Tower, owned by the Foundation, and an attached building owned by the Association. The Association also occupies space in the Wallace E. Pratt Tower, owned by the Foundation. The Foundation recorded net rental income of \$96,637 from the Association for each of the years ended June 30, 2014 and 2013.

**Advertising costs**

Advertising costs are expensed as incurred.

**Concentrations of credit risk**

Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist of cash and temporary investments and investment securities. The Foundation places its cash with creditworthy, high quality financial institutions; however, the amounts may, at times, exceed federally insured limits.

The Foundation has significant investments in equity and debt securities and is therefore subject to concentrations of credit risk. Investment advisors who are supervised by the Board of Trustees manage investments. Market value of investments is subject to fluctuations on a year-to-year basis; however, the Trustees believe the investment policy is prudent for the long-term welfare of the Foundation.

**Risks and uncertainties**

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the short term and that such change could materially affect investment amounts reported in the statement of financial position.

**Subsequent events**

The Foundation has evaluated subsequent events through May 18, 2015, which is the date the financial statements were available to be issued.

**The American Association of Petroleum Geologists Foundation**  
**Notes to the Financial Statements**  
**June 30, 2014 and 2013**

**Note 1 - Property and equipment**

	<u>2014</u>	<u>2013</u>
Land	\$ 489,346	\$ 489,346
Building	6,186,383	6,044,063
Furniture, equipment, and vehicles	<u>36,586</u>	<u>36,586</u>
	6,712,315	6,569,995
Less accumulated depreciation	<u>4,471,075</u>	<u>4,299,473</u>
Net property and equipment	<u>\$ 2,241,240</u>	<u>\$ 2,270,522</u>

**Note 2 - Unrestricted net assets**

Unrestricted net assets consist of the following at June 30,

	<u>2014</u>	<u>2013</u>
Foundation General	\$ 5,161,003	\$ 4,732,818
Bridge Fund	(164)	(164)
Distinguished Lecture	419,729	261,273
Grants-in-Aid	2,372,591	1,765,353
L. Austin Weeks Memorial	15,952,375	14,328,210
Digital Products	46,616	(32,310)
Professorial Grants	27,077	23,991
Secondary Education	136,222	93,724
Halbouty	128,192	116,255
Pratt Bulletin	676,597	599,720
Composite Awards	150,117	116,656
Busch Library	(66,391)	(60,052)
Visiting Petroleum Geologists	617,135	531,981
Named Public Service	260,068	169,504
Other funds	803,073	263,135
Continuing Education	312	(733)
Halbouty Lecture	<u>12,456</u>	<u>7,411</u>
Total unrestricted net assets	<u>\$ 26,697,008</u>	<u>\$ 22,916,772</u>

**Note 3 - Temporarily restricted net assets**

Temporarily restricted net assets consist of the following at June 30,

	<u>2014</u>	<u>2013</u>
Eugene Reid Scouting Fund	\$ 68,407	\$ 65,477
Secondary Education	346,104	312,057
Eugene Reid Dibblee Fund	6,999	6,228
Weeks Undergraduate Grants	763,316	740,507
Trustee	311,046	312,634
Enhancing Earth Sciences	81,982	85,478
Search and Discovery	146,052	174,456
Imperial Barrel Award Fund	253,125	267,194
Other funds	26,930	32,516
Special publications	<u>100,621</u>	<u>79,730</u>
Total temporarily restricted net assets	<u>\$ 2,104,582</u>	<u>\$ 2,076,277</u>

**The American Association of Petroleum Geologists Foundation**  
**Notes to the Financial Statements**  
**June 30, 2014 and 2013**

**Note 4 - Investments**

Investments at June 30, 2014 and 2013, consist of the following:

	<b>June 30, 2014</b>	
	Historical Cost	Market (Carrying Amount)
Fixed income mutual funds	<b>\$ 4,675,000</b>	<b>\$ 4,675,977</b>
Equity mutual funds	<b>15,192,844</b>	<b>20,214,848</b>
Partnership and alternative investments	<b>9,699,096</b>	<b>10,352,320</b>
Traded real estate funds	<b>1,592,710</b>	<b>2,054,135</b>
Infrastructure	<b>2,080,731</b>	<b>2,288,744</b>
Cash equivalents	<b>5,791,590</b>	<b>5,791,590</b>
Common stock	<b><u>1,244,820</u></b>	<b><u>2,529,658</u></b>
Total investments	<b><u>\$ 40,276,791</u></b>	<b><u>\$ 47,907,272</u></b>

	June 30, 2013	
	Historical Cost	Market (Carrying Amount)
Fixed income mutual funds	\$ 3,843,945	\$ 3,839,247
Equity mutual funds	12,028,755	14,126,169
Partnership and alternative investments	15,810,897	15,827,927
Traded real estate funds	1,868,448	2,162,203
Infrastructure	1,299,965	1,274,811
Cash equivalents	3,466,828	3,466,828
Common stock	1,106,475	2,004,612
Due from brokers	<u>234,030</u>	<u>234,030</u>
Total investments	<b><u>\$ 39,659,343</u></b>	<b><u>\$ 42,935,827</u></b>

Investment income consists of the following:

	<b>2014</b>	2013
Income from securities and other investments:		
Interest, dividends and capital gain distributions	<b>\$ 828,879</b>	\$ 706,367
Partnership operating income (loss)	<b>(204,660)</b>	1,543,229
Realized gains	<b>566,747</b>	2,334,866
Unrealized Gains	<b>4,613,770</b>	258,196
Investment advisory fees	<b><u>(121,574)</u></b>	<u>(160,976)</u>
Net income from securities and other investments	<b><u>5,683,162</u></b>	<u>4,681,682</u>

**The American Association of Petroleum Geologists Foundation**  
**Notes to the Financial Statements**  
**June 30, 2014 and 2013**

**Note 4 - Investments (continued)**

	2014	2013
Oil and gas royalties	<u>\$ 150,397</u>	<u>\$ 137,552</u>
Building rental		
Gross rent	258,261	257,384
Building expenses	<u>(319,343)</u>	<u>(315,232)</u>
Net building rental (loss)	<u>(61,082)</u>	<u>(57,848)</u>
Total investment income	<u>\$ 5,772,477</u>	<u>\$ 4,761,386</u>

**Note 5 - Fair value measurements**

The Foundation determines the fair values of its financial instruments based on the fair value hierarchy established in FASB ASC 820-10-50 (formerly FAS 157), *Fair Value Measurements*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3 - unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability (including risk assumptions) developed on the best information available in the circumstances.

The Foundation's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy as follows:

<b>Assets at Fair Value as of June 30, 2014</b>				
	Level 1	Level 2	Level 3	Total
Mutual funds	\$24,890,825	\$ -	\$ -	\$ 24,890,825
Cash equivalents	-	5,791,590	-	5,791,590
Traded real estate funds	-	2,054,135	-	2,054,135
Infrastructure	2,288,744	-	-	2,288,744
Common stock	2,529,658	-	-	2,529,658
Partnership and alternative investments	<u>-</u>	<u>4,221,179</u>	<u>6,131,141</u>	<u>10,352,320</u>
<b>Total assets at fair value</b>	<u><b>\$29,709,227</b></u>	<u><b>\$12,066,904</b></u>	<u><b>\$ 6,131,141</b></u>	<u><b>\$47,907,272</b></u>

**The American Association of Petroleum Geologists Foundation**  
**Notes to the Financial Statements**  
**June 30, 2014 and 2013**

**Note 5 - Fair value measurements (continued)**

Assets at Fair Value as of June 30, 2013				
	Level 1	Level 2	Level 3	Total
Mutual funds	\$17,965,416	\$ -	\$ -	\$ 17,965,416
Cash equivalents	-	3,466,828	-	3,466,828
Due from brokers	-	234,030	-	234,030
Traded real estate funds	-	2,162,203	-	2,162,203
Infrastructure	1,274,811	-	-	1,274,811
Common stock	2,004,612	-	-	2,004,612
Partnership and alternative investments	414,033	10,851,201	4,562,693	15,827,927
Total assets at fair value	<u>\$21,658,872</u>	<u>\$16,714,262</u>	<u>\$ 4,562,693</u>	<u>\$42,935,827</u>

Following is a description of the methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014 and 2013.

*Equity and Fixed Income Mutual funds:* Valued at the net asset value (NAV) of shares held at year-end.

*Common stock:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Cash equivalents:* Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable liquidity, and considering the credit-worthiness of the issuer.

*Partnership and alternative investments:* Investments in partnerships and alternative investments are included in Level 2 or 3 of the fair value hierarchy. In determining the level, management considers the length of time until the investment is redeemable, including notice and lock-up periods or any other restriction on the disposition of the investment. If management does not know when it will have the ability to redeem the investment or it does not have the ability to redeem its investment in the near term, the investment is included in Level 3 of the fair value hierarchy.

The valuations of investments in partnerships and alternative investments are supported by information received from the partnerships and investee funds such as periodic net asset values, investor reports, and audited financial statements, when available. If it is probable that the Foundation will sell an investment at an amount different from the net asset valuation, management may consider other factors, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

The following table is a summary of the changes in the fair value of the Foundation's level 3 assets for the years ended June 30,

	<b>2014</b>	2013
Balance, beginning of year	<b>\$ 4,562,693</b>	\$ 4,656,980
Partnership and alternative investment operating income (loss)	<b>(222,606)</b>	222,135
Unrealized gain	<b>1,173,671</b>	191,731
Proceeds from sales	<b>(680,617)</b>	(2,536,424)
Transfer to level 1	-	(11,378)
Transfer from level 2	-	138,649
Purchases and capital call	<b>1,298,000</b>	1,901,000
Balance, end of year	<b>\$ 6,131,141</b>	\$ 4,562,693

**The American Association of Petroleum Geologists Foundation**  
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**Note 6 - Fund purposes and restrictions**

Special purpose fund balances include 1) funds specifically restricted by donors, grantors or other outside parties and 2) funds restricted at the discretion of the Trustees to accomplish the purpose of the Foundation or to comply with donors' intentions. The following table indicates the purpose for which each fund may be used and the amounts which are restricted:

	Permanently Restricted Amount	Board Designated
<b>General:</b>		
<i>Foundation general fund</i> - for the discretionary use of the Trustees to support any activity which they deem worthy, and in accordance with the purposes for which the Foundation was established	\$ -	\$ -
<b>Operating:</b>		
<i>Operating fund</i> - to support salary and overhead expenses of the Foundation, and it may be used at the discretion of the Trustees to support other projects benefiting the Foundation	100	5,606,360
<i>Distinguished Lecture Fund</i> - to assist with expenses involved with providing distinguished geoscience lecturers to speak before geological societies and university groups	899,622	1,573,263
<i>Visiting Petroleum Geologists Fund</i> - to assist with expenses involved with providing geoscience lecturers to speak before university groups	42,751	97,451
<i>Grants-in-Aid Fund</i> - to support research projects leading to the M.S. degree in geology and related earth sciences. PhD program studies will also be considered if the request is for support of expenses not normally funded by other societies and government agencies	3,258,581	1,605,014
<i>Digital Products Fund</i> - to support the development of new and/or old scientific data into computer accessible form to make the information more readily accessible to the scientific community and the public	1,025,082	-
<i>Other Funds</i> - miscellaneous purposes	448,117	22,792
<i>Michel T. Halbouty Lecture Fund</i> - to support a lecture at each AAPG Annual Meeting with a focus on international petroleum exploration and wildcatting with an emphasis on increasing the world's oil reserves	50,085	-
<b>Education:</b>		
<i>Continuing Education Fund</i> - to provide a source of funding for post-collegiate training of earth scientists through the establishment of computer applications training centers	1,046	-



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**Note 6 - Fund purposes and restrictions (continued)**

	Permanently Restricted Amount	Board Designated
<i>L. Austin Weeks Undergraduate Grants Fund</i> - to provide grants of \$1,000 per school year to each AAPG student chapter in full compliance with the rules guiding the establishment and ongoing operation of the student chapter	\$ 1,214,740	\$ -
<i>K-12 Education Fund</i> - to support programs designed to implement and support the teaching of Earth Science in secondary schools	3,458	-
<i>Michel T. Halbouty Fund</i> - to provide an annual grant for a worthy and deserving geoscience student enrolled at Texas A&M University	406	-
<i>Pratt Bulletin Fund</i> - to support the publishing of the AAPG Bulletin	67	2,954,352
<b>Awards:</b>		
<i>Composite Awards Fund</i> - to properly recognize awardees for scientific excellence and other achievements	131,851	703,366
<i>Busch Library Fund</i> - to support operation of the AAPG Foundation Energy Resources Library	18,267	-
<i>Named Public Service Endowment Fund</i> - to be used by the Trustees at their discretion	673,618	-
<i>The James A. Hartman Student Fund</i> - to support involvement and distribution of scientific knowledge to student member presenters at the AAPG annual meeting by making publication purchases economically feasible	27,806	-
<i>The Hartman Student Chapter Leadership Fund</i> - to encourage and support the future leaders of the petroleum geosciences community at the James A. Hartman Student Chapter Leadership Summit	610,041	-
<i>The AAPG/Holland Award of Excellence Fund</i> - to establish a permanent award of excellence by high achieving faculty members from the Holland School of Sciences and Mathematics at Hardin Simmons University	233,232	-
<i>E.F. Reid Scouting Fund</i> - to support programs which teach geology to Boy Scouts, Girl Scouts and other youth organizations	139,404	-
<i>Other Funds</i> - miscellaneous purposes	142,453	-

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**Note 7 - Endowment funds**

Effective July 1, 2008, the Foundation adopted the provisions of FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* ("FSP 117-1"). FSP 117-1 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and also required disclosures about endowment funds.

The Foundation's endowment consists of approximately 19 individual funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of relevant law*

The Board of Trustees of the Foundation has interpreted the Oklahoma Uniform Prudent Management of Institutional Funds Act (the "Act") as requiring the preservation of the original amount of donor-restricted 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 amount of gifts donated as permanent endowments, and (b) the original amount of subsequent gifts to the permanent endowment.

Earnings on the permanent endowment are classified as temporarily restricted until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act.

In accordance with the Act, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The expected total return from income and the appreciation of investments
5. Other resources of the Foundation
6. The investment policies of the Foundation

Endowment net assets consist of the following at June 30, 2014:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ 937,371</u>	<u>\$ 8,920,728</u>	<u>\$ 9,858,098</u>

Endowment net assets consist of the following at June 30, 2013:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ 876,475</u>	<u>\$ 8,129,195</u>	<u>\$ 9,005,670</u>

Changes in endowment funds for the year ended June 30, 2014 were as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets July 1, 2013	<u>\$ 876,475</u>	<u>\$ 8,129,195</u>	<u>\$ 9,005,670</u>

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**Note 7 - Endowment funds (continued)**

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment return:			
Investment income	<b>\$ 33,021</b>	<b>\$ -</b>	<b>\$ 33,021</b>
Net appreciation (depreciation)	<b><u>109,163</u></b>	<b><u>-</u></b>	<b><u>109,163</u></b>
Total investment return	<b><u>142,184</u></b>	<b><u>-</u></b>	<b><u>142,184</u></b>
Contributions	<b><u>-</u></b>	<b><u>791,533</u></b>	<b><u>791,533</u></b>
Appropriation for expenditure	<b><u>(81,288)</u></b>	<b><u>-</u></b>	<b><u>(81,288)</u></b>
Endowment net assets June 30, 2014	<b><u>\$ 937,371</u></b>	<b><u>\$ 8,920,728</u></b>	<b><u>\$ 9,858,099</u></b>

Changes in endowment funds for the year ended June 30, 2013 were as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets July 1, 2012	<b><u>\$ 660,428</u></b>	<b><u>\$ 7,786,782</u></b>	<b><u>\$ 8,447,210</u></b>
Investment return:			
Investment income	269,470	-	269,470
Net appreciation (depreciation)	<u>19,690</u>	<u>-</u>	<u>19,690</u>
Total investment return (loss)	<u>289,160</u>	<u>-</u>	<u>289,160</u>
Contributions	<u>-</u>	<u>342,413</u>	<u>342,413</u>
Appropriation for expenditure	<u>(73,113)</u>	<u>-</u>	<u>(73,113)</u>
Endowment net assets June 30, 2013	<b><u>\$ 876,475</u></b>	<b><u>\$ 8,129,195</u></b>	<b><u>\$ 9,005,670</u></b>

*Return objectives and risk parameters*

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the original amount of the endowment assets. The Foundation expects its endowment funds, over the long term, to provide a nominal rate of return of 6.75%, including an expected inflation rate of 1.75% for an average real rate of return of approximately 5.0% annually. Actual returns may vary from this amount.

*Strategies employed for achieving objectives*

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 capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places emphasis on investment in equities, bonds and alternative investments to achieve its long-term objectives within prudent risk constraints.

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**Note 7 - Endowment funds (continued)**

*Spending policy and how the investment objectives relate to spending policy*

The Foundation has a policy of appropriating for distribution each year 4.0% of its endowment funds average fair value of the prior 3 years. In establishing the policies, the Foundation considered the expected return on its endowment. Accordingly, the Foundation expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts.

**Note 8 - Related party transactions**

For the years ended June 30, 2014 and 2013, the Foundation paid \$687,013 and 805,931, respectively, for contracts, grants and management fees to the Association and its subsidiary to support and manage various projects appropriate for an organization exempt under Section 501(c)(3) of the Internal Revenue Code.

The Association and the Foundation entered into publishing agreements for certain publications at various dates. The Foundation paid for all publishing costs and receives 75% to 90% of the revenue.

The Foundation's rental income includes \$96,637 for each of the years ended June 30, 2014 and 2013, for space occupied by the Association as discussed in the Summary of Accounting Policies under the caption "Cost Allocation".

**Note 9 - Net assets released from restrictions**

Net assets released from temporary donor restrictions by incurring expenses satisfying the restrictive purpose or by occurrence of the events specified by donors were as follows:

	<u>2014</u>	<u>2013</u>
Purpose restrictions		
Eugene Reid Scouting Fund	\$ 5,334	\$ 3,833
Pickens Digital	41,112	75,316
Weeks Undergraduate	70,735	69,258
Eugene Reid Dibblee Fund	16	22
Holland Award Fund	9,883	10,978
Other publications	53,519	51,935
Other funds	<u>65,764</u>	<u>29,456</u>
 Total	 <u>\$ 246,363</u>	 <u>\$ 240,798</u>

**Note 10 - Supplemental disclosures of cash flow information**

For purposes of the statement of cash flows the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, including money market funds and commercial paper.

The Foundation received equity security contributions valued at \$235,050 and \$23,740 during the years ended June 30, 2014 and 2013, respectively.