



FINANCIAL STATEMENTS

JUNE 30, 2016 and 2015

WITH

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Trustees
The American Association of Petroleum Geologists Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The American Association of Petroleum Geologists Foundation (the Foundation), (a not-for-profit corporation), which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The American Association of Petroleum Geologists Foundation as of June 30, 2016 and 2015, 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.



Tulsa, Oklahoma
February 13, 2017

THE AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

| | 2016 | 2015 |
|--|---------------|---------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 35,018 | \$ 71,897 |
| Accounts receivable: | | |
| Due from the American Association of Petroleum Geologists | 162,329 | 18,314 |
| Other | 252,399 | 20,456 |
| Prepaid expenses | 30,021 | 18,122 |
| Total current assets | 479,767 | 128,789 |
| Noncurrent assets: | | |
| Property and equipment, net | 2,039,889 | 2,089,767 |
| Investments | 45,776,685 | 47,558,864 |
| Total assets | \$ 48,296,341 | \$ 49,777,420 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Due to the American Association of Petroleum Geologists | \$ 522,593 | \$ 268,787 |
| Accounts payable and other | 82,028 | 132,297 |
| Total current liabilities | 604,621 | 401,084 |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | 24,906,159 | 25,845,465 |
| Board-designated | 11,022,479 | 12,116,763 |
| Total unrestricted | 35,928,638 | 37,962,228 |
| Temporarily restricted | 2,053,436 | 2,108,387 |
| Permanently restricted | 9,709,646 | 9,305,721 |
| Total net assets | 47,691,720 | 49,376,336 |
| Total liabilities and net assets | \$ 48,296,341 | \$ 49,777,420 |

THE AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS FOUNDATION

STATEMENT OF ACTIVITIES

Year ended June 30, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------|---------------------------|---------------------------|---------------|
| Support and investment income | | | | |
| Support income: | | | | |
| Contributions | \$ 400,926 | \$ 85,382 | \$ 403,925 | \$ 890,233 |
| Awards grants and other | 1,058 | - | - | 1,058 |
| Total support income | 401,984 | 85,382 | 403,925 | 891,291 |
| Investment income, less | | | | |
| advisory expenses of \$132,301 | 228,425 | 9,790 | - | 238,215 |
| Oil and gas royalties | 44,186 | - | - | 44,186 |
| Building rent, less expenses of \$396,051 | (47,865) | - | - | (47,865) |
| Total investment income | 224,746 | 9,790 | - | 234,536 |
| Net assets released from restriction | 150,123 | (150,123) | - | - |
| Total support and investment income | 776,853 | (54,951) | 403,925 | 1,125,827 |
| Expenses: | | | | |
| Program services | 2,318,016 | - | - | 2,318,016 |
| Supporting services: | | | | |
| Management and general | 418,802 | - | - | 418,802 |
| Fundraising | 73,625 | - | - | 73,625 |
| Total expenses | 2,810,443 | - | - | 2,810,443 |
| Change in net assets | (2,033,590) | (54,951) | 403,925 | (1,684,616) |
| Net assets, beginning of year | 37,962,228 | 2,108,387 | 9,305,721 | 49,376,336 |
| Net assets, end of year | \$ 35,928,638 | \$ 2,053,436 | \$ 9,709,646 | \$ 47,691,720 |

THE AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS FOUNDATION

STATEMENT OF ACTIVITIES

Year ended June 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|------------------|---------------------------|---------------------------|------------------|
| Support and investment income | | | | |
| Support income: | | | | |
| Contributions | \$ 551,848 | \$ 165,151 | \$ 384,994 | \$ 1,101,993 |
| Awards grants and other | 2,095 | - | - | 2,095 |
| Total support income | 553,943 | 165,151 | 384,994 | 1,104,088 |
| Investment income, less | | | | |
| advisory expenses of \$142,938 | 197,940 | 22,161 | - | 220,101 |
| Oil and gas royalties | 118,605 | - | - | 118,605 |
| Building rent, less expenses of \$312,058 | (55,057) | - | - | (55,057) |
| Total investment income | 261,488 | 22,161 | - | 283,649 |
| Net assets released from restriction | 183,507 | (183,507) | - | - |
| Total support and investment income | 998,938 | 3,805 | 384,994 | 1,387,737 |
| Expenses: | | | | |
| Program services | 1,756,522 | - | - | 1,756,522 |
| Supporting services: | | | | |
| Management and general | 466,171 | - | - | 466,171 |
| Fundraising | 73,623 | - | - | 73,623 |
| Total expenses | 2,296,316 | - | - | 2,296,316 |
| Change in net assets | (1,297,378) | 3,805 | 384,994 | (908,579) |
| Net assets, beginning of year | 39,259,606 | 2,104,582 | 8,920,727 | 50,284,915 |
| Net assets, end of year | \$ 37,962,228 | \$ 2,108,387 | \$ 9,305,721 | \$ 49,376,336 |

THE AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2016

| | Program Services | Management and General | Fundraising | Total |
|-----------------------------------|---------------------|---------------------------|------------------|---------------------|
| Salaries and benefits | \$ 174,068 | \$ 216,133 | \$ 10,807 | \$ 401,008 |
| Contract personnel | - | 195 | - | 195 |
| Awards, grants and joint programs | 1,891,783 | - | - | 1,891,783 |
| Depreciation | - | 14,181 | - | 14,181 |
| Bank and exchange fees | 2,225 | 14,381 | - | 16,606 |
| Janitorial | - | 1,960 | - | 1,960 |
| Repairs and maintenance | - | 5,475 | - | 5,475 |
| Professional fees | 31,721 | 41,483 | 1,296 | 74,500 |
| Utilities | - | 4,449 | - | 4,449 |
| Insurance | - | 2,514 | - | 2,514 |
| Advertising | 3,823 | - | 30,435 | 34,258 |
| Printing | - | 2,888 | - | 2,888 |
| Postage and shipping | 2,137 | 3,258 | 1,755 | 7,150 |
| Office supplies and expense | 5,357 | 13,386 | 21,339 | 40,082 |
| Computer costs | 3,800 | 1,115 | - | 4,915 |
| Travel, meals and entertainment | 122,390 | - | - | 122,390 |
| Publication costs | 531 | - | - | 531 |
| Overhead charge from AAPG | 80,181 | 97,384 | 7,993 | 185,558 |
| Total expenses | \$ 2,318,016 | \$ 418,802 | \$ 73,625 | \$ 2,810,443 |

THE AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2015

| | Program Services | Management and General | Fundraising | Total |
|-----------------------------------|---------------------|---------------------------|------------------|---------------------|
| Salaries and benefits | \$ 138,723 | \$ 283,629 | \$ 12,153 | \$ 434,505 |
| Contract personnel | - | 1,353 | - | 1,353 |
| Awards, grants and joint programs | 1,412,833 | - | - | 1,412,833 |
| Depreciation | - | 14,298 | - | 14,298 |
| Bank and exchange fees | 2,269 | 7,809 | - | 10,078 |
| Janitorial | - | 2,449 | - | 2,449 |
| Repairs and maintenance | - | 1,804 | - | 1,804 |
| Professional fees | 31,341 | 42,905 | 3,628 | 77,874 |
| Utilities | - | 4,607 | - | 4,607 |
| Insurance | - | 2,588 | - | 2,588 |
| Advertising | 749 | - | 32,257 | 33,006 |
| Printing | - | 3,397 | - | 3,397 |
| Postage and shipping | 3,011 | 3,369 | 1,814 | 8,194 |
| Office supplies and expense | 58 | 4,176 | 15,563 | 19,797 |
| Computer costs | 3,666 | 3,150 | - | 6,816 |
| Travel, meals and entertainment | 106,279 | - | - | 106,279 |
| Publication costs | 1,869 | - | - | 1,869 |
| Overhead charge from AAPG | 55,724 | 90,637 | 8,208 | 154,569 |
| Total expenses | \$ 1,756,522 | \$ 466,171 | \$ 73,623 | \$ 2,296,316 |

THE AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS FOUNDATION

STATEMENTS OF CASH FLOWS

Years ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|--------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ (1,684,616) | \$ (908,579) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Donated stock | (84,879) | (11,094) |
| Contributions for long-term purposes | (403,925) | (384,994) |
| Depreciation | 191,278 | 185,455 |
| Net unrealized loss on investments | 785,488 | 1,657,625 |
| Gain on sales of investments | (152,132) | (1,015,528) |
| Loss on sale of property and equipment | 2,404 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (231,943) | 6,969 |
| Due from the American Association of Petroleum Geologists | (144,015) | 101,739 |
| Prepaid expenses | (11,899) | 5,320 |
| Accounts payable and other | (50,269) | 94,269 |
| Due to the American Association of Petroleum Geologists | <u>253,806</u> | <u>(75,559)</u> |
| Net cash used in operating activities | (1,530,702) | (344,377) |
| Cash Flows from Investing Activities | | |
| Payments for the purchase of property and equipment | (143,804) | (33,982) |
| Proceeds from sale of investments and return of capital | 3,301,169 | 16,909,822 |
| Purchase of investments and required capital calls | <u>(2,067,467)</u> | <u>(17,192,417)</u> |
| Net cash provided by (used in) investing activities | 1,089,898 | (316,577) |
| Cash Flows from Financing Activities | | |
| Contributions restricted for long-term purposes | <u>403,925</u> | <u>384,994</u> |
| Net cash provided by financing activities | <u>403,925</u> | <u>384,994</u> |
| Change in cash and cash equivalents | (36,879) | (275,960) |
| Cash and cash equivalents, beginning of year | <u>71,897</u> | <u>347,857</u> |
| Cash and cash equivalents, end of year | <u>\$ 35,018</u> | <u>\$ 71,897</u> |

THE AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Organization

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, net assets, revenues and expenses.

Cash and cash equivalents

The Foundation considers all unrestricted highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

Contributions and accounts receivable

Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the estimated present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received.

Management determines the allowance for doubtful accounts based on periodic assessment of outstanding pledges, particularly those pledges which are past due, as well as consideration of historical experience on collection of pledges. Pledge receivables are written off when deemed uncollectible.

At June 30, 2016 and 2015, the Foundation had conditional pledge receivables totaling \$1,343,610 and \$1,255,350, respectively. Additionally at June 30, 2016, the Foundation was designated as the beneficiary in various legacy pledges totaling \$3,885,000.

Investments

Investments in marketable securities are carried at estimated fair value as reported by the asset custodians. Partnerships and alternative investments are stated at estimated fair values as discussed in Note 3.

Property and equipment

Property and equipment are stated at cost or at estimated fair value at date of donation and are depreciated using the straight-line method over the estimated useful lives ranging from 3 to 40 years for buildings (including improvements) and 3 to 10 years for furniture, equipment and vehicles. Property and equipment having estimated lives in excess of one year are capitalized.

Unrestricted, temporarily and permanently restricted net assets

Accounting principles generally accepted in the United States of America require the Foundation to report information regarding its financial position and activities in three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

The Foundation reports contributions as restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Permanently restricted net assets are subject to donor imposed restrictions that stipulate resources be maintained permanently, but permit the Foundation to expend earnings for the purpose restricted in accordance with the spending policy established by the Foundation's Board of Trustees.

Net assets that are not subject to donor imposed restrictions are classified as unrestricted. Gifts having donor stipulations that are satisfied in the period the gift is received are reported as unrestricted support.

The Foundation maintains a pool of investment funds for the unrestricted, temporarily restricted and permanently restricted net assets. Investment returns are allocated to net asset classifications based upon the percentage of the balance of net assets held in each classification. Investment returns on permanently restricted assets and board-designated matching funds are temporarily restricted for the purposes stipulated by donors. Investment returns on board-designated funds that are not associated or matched with a restricted gift are unrestricted. Investment losses on permanently restricted assets in excess of accumulated nonexpended returns are allocated to unrestricted net assets. Returns on temporarily restricted assets are allocated to unrestricted net assets.

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 \$143,117 and \$96,637 from the Association for the years ended June 30, 2016 and 2015, respectively.

Advertising costs

Advertising costs are expensed as incurred.

Income tax status

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is considered an organization that is not a private foundation. As a result, as long as the Foundation maintains its tax exemption, it will not be subject to income tax.

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 and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Subsequent events

Management has evaluated subsequent events through February 13, 2017, the date the financial statements were available to be issued.

Note 2 – Property and Equipment

A summary of property and equipment at June 30 is as follows:

| | 2016 | 2015 |
|-----------------------------------|---------------------|---------------------|
| Land | \$ 489,346 | \$ 489,346 |
| Buildings | 6,354,887 | 6,217,482 |
| Furniture, equipment and vehicles | 39,469 | 39,469 |
| | <u>6,883,702</u> | <u>6,746,297</u> |
| Less accumulated depreciation | <u>(4,843,813)</u> | <u>(4,656,530)</u> |
| | <u>\$ 2,039,889</u> | <u>\$ 2,089,767</u> |

Note 3 – Investments

Investments consist of the following at June 30:

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Fixed income mutual funds | \$ 4,792,417 | \$ 4,882,758 |
| Equity mutual funds | 17,252,216 | 18,083,401 |
| Partnership and alternative investments | 17,626,285 | 17,690,090 |
| Traded real estate funds | 1,794,826 | 1,761,212 |
| Infrastructure | 1,389,938 | 1,730,322 |
| Cash equivalents | 397,179 | 731,613 |
| Common stock | 2,523,824 | 2,679,468 |
| Total investments | <u>\$ 45,776,685</u> | <u>\$ 47,558,864</u> |

Securities, partnership and alternative investment income for 2016 and 2015 consists of the following:

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Interest, dividends, and capital gain distributions | \$ 1,003,872 | \$ 1,005,136 |
| Realized gains | 152,132 | 1,015,528 |
| Unrealized losses | (785,488) | (1,657,625) |
| Investment advisory fees | (132,301) | (142,938) |
| | <u>\$ 238,215</u> | <u>\$ 220,101</u> |

The fair value measurement standards establish a consistent framework for measuring fair value and a fair value hierarchy based on the observability of inputs used to measure fair value. These inputs are summarized in three broad levels:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 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.

There were no investment transfers due to changes in the observability of significant inputs between Level 1, Level 2 and Level 3 assets during the years ended June 30, 2016 or 2015.

| | Fair Value Measurements as of June 30, 2016 | | | |
|---|---|----------------------|---------------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual funds | \$ 22,044,633 | \$ - | \$ - | \$ 22,044,633 |
| Cash equivalents | - | 397,179 | - | 397,179 |
| Traded real estate funds | - | 1,794,826 | - | 1,794,826 |
| Infrastructure | 1,389,938 | - | - | 1,389,938 |
| Common stock | 2,523,824 | - | - | 2,523,824 |
| Partnership and alternative investments | - | 8,134,876 | 9,491,409 | 17,626,285 |
| | <u>\$ 25,958,395</u> | <u>\$ 10,326,881</u> | <u>\$ 9,491,409</u> | <u>\$ 45,776,685</u> |

| | Fair Value Measurements as of June 30, 2015 | | | |
|---|---|----------------------|---------------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual funds | \$ 22,966,159 | \$ - | \$ - | \$ 22,966,159 |
| Cash equivalents | - | 731,613 | - | 731,613 |
| Traded real estate funds | - | 1,761,212 | - | 1,761,212 |
| Infrastructure | 1,730,322 | - | - | 1,730,322 |
| Common stock | 2,679,468 | - | - | 2,679,468 |
| Partnership and alternative investments | - | 7,821,398 | 9,868,692 | 17,690,090 |
| | <u>\$ 27,375,949</u> | <u>\$ 10,314,223</u> | <u>\$ 9,868,692</u> | <u>\$ 47,558,864</u> |

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 table below sets forth a summary of changes in the fair value of the Foundation's Level 3 investments for the years ended June 30:

| | 2016 | 2015 |
|----------------------------|---------------------|---------------------|
| Balance, beginning of year | \$ 9,868,692 | \$ 6,131,141 |
| Unrealized gain | 87,028 | 519,395 |
| Proceeds from sales | (1,298,772) | (777,079) |
| Purchases and capital call | 834,461 | 3,995,235 |
| | <u>\$ 9,491,409</u> | <u>\$ 9,868,692</u> |

Note 4 – 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.

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) for Oklahoma as requiring the 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, and (b) the original value 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 UPMIFA.

Investment return objectives, risk parameters and strategies

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% annually. Actual returns may vary from this amount.

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.

Spending policy

The Foundation has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value of the prior three years. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. 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.

Changes in endowment net assets for the years ended June 30:

| 2016 | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------------|---------------------------|----------------------|
| Endowment net assets, beginning of year | \$ 862,152 | \$ 9,305,721 | \$ 10,167,873 |
| Investment return: | | | |
| Investment income | 13,515 | - | 13,515 |
| Net depreciation | (7,225) | - | (7,225) |
| Total investment return | 6,290 | - | 6,290 |
| Contributions | - | 403,925 | 403,925 |
| Appropriation for expenditure | (113,897) | - | (113,897) |
| Endowment net assets, end of year | <u>\$ 754,545</u> | <u>\$ 9,709,646</u> | <u>\$ 10,464,191</u> |

| 2015 | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------------|---------------------------|----------------------|
| Endowment net assets, beginning of year | \$ 937,371 | \$ 8,920,727 | \$ 9,858,098 |
| Investment return: | | | |
| Investment income | 64,174 | - | 64,174 |
| Net appreciation | (49,491) | - | (49,491) |
| Total investment return | 14,683 | - | 14,683 |
| Contributions | 2,283 | 384,994 | 387,277 |
| Appropriation for expenditure | (92,185) | - | (92,185) |
| Endowment net assets, end of year | <u>\$ 862,152</u> | <u>\$ 9,305,721</u> | <u>\$ 10,167,873</u> |

Note 5 – Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

| | 2016 | 2015 |
|-----------------------------|---------------------|---------------------|
| Education Fund | \$ 334,768 | \$ 343,021 |
| Eugene Reid Scouting Fund | 49,240 | 67,585 |
| Eugene Reid Dibblee Fund | - | 7,064 |
| Weeks Undergraduate Grants | 612,337 | 691,384 |
| Holland Award of Excellence | 534,984 | 463,979 |
| Enhancing Earth Sciences | 82,773 | 82,773 |
| Search and Discovery | 98,126 | 97,368 |
| Imperial Barrel Award Fund | 197,608 | 223,619 |
| Other funds | 18,477 | 18,841 |
| Special publications | 125,123 | 112,753 |
| | <u>\$ 2,053,436</u> | <u>\$ 2,108,387</u> |

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 |
|---|-------------------------------------|---------------------|
| General: | | |
| <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 | \$ - | \$ - |
| Operating: | | |
| <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 | 4,671,508 |
| <i>Distinguished Lecture Fund</i> - to assist with expenses involved with providing distinguished geoscience lecturers to speak before geological societies and university groups | 909,010 | 1,376,664 |
| <i>Visiting Petroleum Geologists Fund</i> - to assist with expenses involved with providing geoscience lecturers to speak before university groups | 57,251 | 31,527 |
| <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 | 3,484,997 | 1,356,597 |
| <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 | 1,100,296 | - |
| <i>Other Funds</i> - miscellaneous purposes | 105,344 | 23,073 |
| <i>Military Veterans Scholarship Fund</i> - to promote the advancement of student veterans in educational geoscience programs at the undergraduate level. | 744,786 | - |
| Education: | | |
| <i>Education Fund</i> - to provide a source of funding for education and training of earth science through all levels of education. | 4,504 | - |
| <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 | 1,220,791 | - |

| | Permanently Restricted Amount | Board Designated |
|--|-------------------------------------|----------------------|
| <i>Pratt Bulletin Fund</i> - to support the publishing of the AAPG Bulletin | 67 | 2,871,447 |
| Awards: | | |
| <i>Composite Awards Fund</i> - to properly recognize awardees for scientific excellence and other achievements | 136,344 | 691,663 |
| <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 | 759,263 | - |
| <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 | 611,276 | - |
| <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 | 156,908 | - |
| | <u>\$ 9,709,646</u> | <u>\$ 11,022,479</u> |

Note 7 – 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 for the years ended June 30:

| | 2016 | 2015 |
|----------------------------|-------------------|-------------------|
| Purpose restrictions: | | |
| Imperial Barrel Award Fund | \$ 27,753 | \$ 32,613 |
| Eugene Reid Scouting | 18,870 | 1,666 |
| Eugene Reid Dibblee Fund | 7,064 | - |
| Weeks Undergraduate | 84,430 | 81,351 |
| Holland Award Fund | - | 5,387 |
| Other publications | - | 50,452 |
| Other funds | 12,006 | 12,038 |
| | <u>\$ 150,123</u> | <u>\$ 183,507</u> |

Note 8 – Related Party Transactions

For the years ended June 30, 2016 and 2015, the Foundation paid \$1,056,690 and \$540,459, 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 \$143,117 and \$96,637 for the years ended June 30, 2016 and 2015, respectively, for space occupied by the Association as discussed in Note 1 under the caption "Cost Allocation."

Note 9 – Supplemental Disclosures of Cash Flow Information

The Foundation received equity security contributions valued at \$84,879 and \$11,094 during the years ended June 30, 2016 and 2015, respectively.

Note 10 – Concentration of Credit Risk

The Foundation maintains accounts and deposits with financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC). Occasionally, cash balances exceed the FDIC insurance 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.

Note 11 – Commitments

As discussed in Note 3, the Foundation has investments in partnerships and alternative investments. The Foundation is contractually obligated to provide future funding for capital calls to these investments of approximately \$2,960,000 as of June 30, 2016.