



FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016
WITH
INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
SEG Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of SEG Foundation (a not-for-profit corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities 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 audit 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 SEG Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hogan Taylor LLP

Tulsa, Oklahoma
April 30, 2018

SEG FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	2017	2016
Assets		
Cash	\$ 1,379,154	\$ 1,744,149
Pledges receivable, net	1,846,302	3,485,874
Due from affiliate	-	14,407
Investments	19,649,333	16,926,174
Exhibits	131,736	131,736
Other assets	21,769	13,996
	\$ 23,028,294	\$ 22,316,336
Liabilities and Net Assets		
Liabilities:		
Due to affiliate	\$ 518,294	\$ 397,695
Accounts payable and accrued liabilities	-	6,967
	518,294	404,662
Total liabilities		
Net assets:		
Unrestricted:		
Undesignated	1,708,499	1,324,272
Board-designated	2,771,587	2,771,587
	4,480,086	4,095,859
Total unrestricted	4,480,086	4,095,859
Temporarily restricted	5,666,783	5,565,815
Permanently restricted	12,363,131	12,250,000
	22,510,000	21,911,674
Total net assets	22,510,000	21,911,674
Total liabilities and net assets	\$ 23,028,294	\$ 22,316,336

SEG FOUNDATION

STATEMENT OF ACTIVITIES

Year ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 160,449	\$ 520,299	\$ 101,240	\$ 781,988
In-kind support from affiliate	102,396	-	-	102,396
Interest and dividends	87,100	421,873	-	508,973
Net gain on investments	368,603	1,930,337	16,641	2,315,581
Loss on bad debt	-	(15,250)	(23,750)	(39,000)
Donor-approved transfer	-	(19,000)	19,000	-
Net assets released from restriction	2,737,291	(2,737,291)	-	-
Total revenues, gains and other support	3,455,839	100,968	113,131	3,669,938
Expenses:				
Program services:				
Grant awards to affiliate	2,373,955	-	-	2,373,955
Other grant awards	100,000	-	-	100,000
Total program services	2,473,955	-	-	2,473,955
Supporting services:				
Management and general	336,129	-	-	336,129
Fundraising	141,232	-	-	141,232
Investment fees	120,296	-	-	120,296
Total supporting services	597,657	-	-	597,657
Total expenses	3,071,612	-	-	3,071,612
Change in net assets	384,227	100,968	113,131	598,326
Net assets, beginning of year	4,095,859	5,565,815	12,250,000	21,911,674
Net assets, end of year	\$ 4,480,086	\$ 5,666,783	\$ 12,363,131	\$ 22,510,000

SEG FOUNDATION

STATEMENT OF ACTIVITIES

Year ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 108,581	\$ 693,571	\$ 332,051	\$ 1,134,203
In-kind support from affiliate	120,096	-	-	120,096
Interest and dividends	38,844	388,583	-	427,427
Net gain on investments	271,871	240,523	-	512,394
Loss on bad debt	-	(750,000)	-	(750,000)
Donor-approved transfer	-	(144,800)	144,800	-
Net assets released from restriction	2,460,541	(2,460,541)	-	-
Total revenues, gains and other support	2,999,933	(2,032,664)	476,851	1,444,120
Expenses:				
Program services:				
Grant awards to affiliate	2,111,286	-	-	2,111,286
Supporting services:				
Management and general	292,941	-	-	292,941
Fundraising	165,751	-	-	165,751
Investment fees	116,411	-	-	116,411
Total supporting services	575,103	-	-	575,103
Total expenses	2,686,389	-	-	2,686,389
Change in net assets	313,544	(2,032,664)	476,851	(1,242,269)
Net assets, beginning of year	3,782,315	7,598,479	11,773,149	23,153,943
Net assets, end of year	\$ 4,095,859	\$ 5,565,815	\$ 12,250,000	\$ 21,911,674

SEG FOUNDATION

STATEMENTS OF CASH FLOWS

Years ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 598,326	\$ (1,242,269)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Permanently restricted contributions	(101,240)	(332,051)
Donated stock	(33,927)	(23,500)
Net gain on investments	(2,315,581)	(512,394)
Loss on bad debt	39,000	750,000
Change in operating assets and liabilities:		
Pledges receivable, net	1,495,122	1,514,713
Due to and due from affiliate	135,006	(60,690)
Other assets	(7,773)	15,415
Accounts payable and accrued liabilities	(6,967)	6,552
Net cash provided by (used in) operating activities	(198,034)	115,776
Cash Flows from Investing Activities		
Proceeds from sale of investments	7,293,727	11,803,005
Purchase of investments	(7,667,378)	(14,541,922)
Net cash used in investing activities	(373,651)	(2,738,917)
Cash Flows from Financing Activities		
Permanently restricted contributions received in cash	206,690	264,068
Net decrease in cash	(364,995)	(2,359,073)
Cash, beginning of year	1,744,149	4,103,222
Cash, end of year	\$ 1,379,154	\$ 1,744,149

SEG FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

Nature of operations

SEG Foundation (the Foundation), is a not-for-profit corporation affiliated with the Society of Exploration Geophysicists (the Society) (see Note 7). The Foundation encourages and supports scientific, educational and charitable activities of benefit to geophysicists. The Foundation provides funding to the Society, who in turn provides funding directly to students and others. Awards to the Society support major programs including student programs, professional development and digital knowledge support. Awards to students include scholarships and travel grants. The Foundation also provides funding through the Society for grants to other organizations for summer field camps, the Geoscientists *Without* Borders program and projects of special merit. Contributions are received primarily from members of the Society and corporations.

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.

Cash

Cash consists of deposit balances maintained at high quality financial institutions. Typically, cash exceeds federally insured limits, but management believes any possible risk of loss is minimal.

Contributions and pledges 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.

Investments

Investments are carried at estimated fair value as reported by the asset custodians. See Note 3 for a description of the fair value inputs and methodologies utilized.

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 net assets, temporarily restricted net assets 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 Directors (see Note 6).

Net assets that are not subject to donor imposed restrictions are classified as unrestricted.

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. Recoveries of such losses are first allocated to unrestricted net assets. Earnings on temporarily restricted assets are allocated to unrestricted net assets.

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.

Reclassifications

Certain items in the 2016 financial statements have been reclassified to conform to the 2017 financial statements presentation. Total net assets and change in net assets are unaffected by these classifications.

Subsequent events

Management has evaluated subsequent events through April 30, 2018, the date the financial statements were available to be issued.

Note 2 – Pledges Receivable

Pledges receivable consist of the following unconditional promises to give at December 31:

	2017	2016
Due in less than one year	\$ 1,395,961	\$ 2,290,556
Due in one to five years	636,700	1,848,127
	2,032,661	4,138,683
Allowance for doubtful accounts	(175,150)	(624,501)
Unamortized discount	(11,209)	(28,308)
	(186,359)	(652,809)
	<u>\$ 1,846,302</u>	<u>\$ 3,485,874</u>

Note 3 – Investments

The Financial Accounting Standards Codification established 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 that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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 December 31, 2017 and 2016.

Investments measured at fair value on a recurring basis consisted of the following:

	Fair Value Measurements as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Equity securities	\$ 6,647,025	\$ -	\$ -	\$ 6,647,025
Corporate bonds	-	1,064,401	-	1,064,401
Government securities	-	1,789,952	-	1,789,952
Bond mutual funds	5,105,926	-	-	5,105,926
Equity mutual funds	5,042,029	-	-	5,042,029
Total investments at fair value	<u>\$ 16,794,980</u>	<u>\$ 2,854,353</u>	<u>\$ -</u>	<u>\$ 19,649,333</u>

	Fair Value Measurements as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Equity securities	\$ 6,599,082	\$ -	\$ -	\$ 6,599,082
Corporate bonds	-	560,926	-	560,926
Asset-backed securities	-	856,656	-	856,656
Government securities	-	313,896	-	313,896
Bond mutual funds	4,036,811	-	-	4,036,811
Equity mutual funds	4,558,803	-	-	4,558,803
Total investments at fair value	<u>\$ 15,194,696</u>	<u>\$ 1,731,478</u>	<u>\$ -</u>	<u>\$ 16,926,174</u>

Note 4 – Exhibits

Exhibits consist of historical geophysical equipment and a "Doodlebugger" statue commemorating the geophysical tradition.

Note 5 – Net Assets

Unrestricted

Unrestricted net assets are comprised of the following at December 31:

	<u>2017</u>	<u>2016</u>
General operating fund	\$ 1,708,499	\$ 1,325,540
Endowment losses in excess of permanently restricted funds	-	(1,268)
Board-designated funds	<u>2,771,587</u>	<u>2,771,587</u>
	<u>\$ 4,480,086</u>	<u>\$ 4,095,859</u>

Contributions of \$2,021,587 are designated by the Foundation Board of Directors to match permanently restricted contributions received from donors. The Foundation Board has designated these funds for investment and is obligated to use the returns in compliance with donor restrictions for the matched gift.

A contribution of \$750,000 was designated by the Board for investment, the returns of which have no donor restrictions.

Temporarily restricted

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Professional development	\$ 774,667	\$ 1,144,229
Student support	3,568,648	2,976,482
Geoscientists <i>Without</i> Borders	855,874	1,073,220
Other	<u>467,594</u>	<u>371,884</u>
	<u>\$ 5,666,783</u>	<u>\$ 5,565,815</u>

Permanently restricted

Permanently restricted endowment funds are designated for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Professional development	\$ 537,452	\$ 537,452
Student support	8,423,131	8,365,266
Geoscientists <i>Without</i> Borders	1,670,997	1,595,355
Near Surface	32,895	25,152
General	1,511,237	1,539,356
Other	<u>187,419</u>	<u>187,419</u>
	<u>\$ 12,363,131</u>	<u>\$ 12,250,000</u>

Note 6 – Endowment Funds

The Foundation's endowment consists of 13 individual programs established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments.

The Board of Directors 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, (b) the original value of subsequent gifts to the permanent endowment, and (c) excess accumulated investment earnings in accordance with the applicable donor gift instruments and policy.

The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditures 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, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those investment earnings over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a diversified asset mix that is intended to produce a target return, net of fees, of at least 5% per annum. Actual returns in any given year may vary from this amount.

Spending policy

The Foundation's spending policy is consistent with its investment objective of achieving long-term real growth in its assets. 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. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal average rate, which is consistent with the Foundation's objective to maintain the purchasing power as well as to provide additional real growth through new gifts and investment returns. The annual spending rate is approved annually by the board. The spending rate was set at 2% for the years ended December 31, 2017 and 2016.

Donor agreements allow for a portion of the earnings of permanently restricted contributions to be used for management and administration expenses. These annual fees cannot exceed 25% of the designated spending rate set by the Board of Directors. Annual management fee for the years ended December 31, 2017 and 2016 was 0.5%. Funds released from temporarily restricted net assets to unrestricted net assets for management fees were \$72,666 and \$70,366 for the years ended December 31, 2017 and 2016, respectively.

In addition to approved spending policy amounts and the annual management fees, the Foundation also appropriates funds for investment fees and other expenses directly related to the endowment assets. Total amounts appropriated for these purposes were \$134,718 and \$128,180 for the years ended December 31, 2017 and 2016, respectively.

Endowment net asset composition by type of fund as of December 31 is as follows:

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,127,062	\$ 12,363,131	\$ 14,490,193
Board-designated endowment funds	2,771,587	-	-	2,771,587
	<u>\$ 2,771,587</u>	<u>\$ 2,127,062</u>	<u>\$ 12,363,131</u>	<u>\$ 17,261,780</u>
2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (1,268)	\$ 253,629	\$ 12,250,000	\$ 12,502,361
Board-designated endowment funds	2,771,587	-	-	2,771,587
	<u>\$ 2,770,319</u>	<u>\$ 253,629</u>	<u>\$ 12,250,000</u>	<u>\$ 15,273,948</u>

Changes in endowment net assets for the years ended December 31:

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,770,319	\$ 253,629	\$ 12,250,000	\$ 15,273,948
Investment return:				
Interest and dividends	-	414,099	-	414,099
Net realized and unrealized gains on long-term investments	1,268	1,938,111	16,641	1,956,020
Total investment return	1,268	2,352,210	16,641	2,370,119
Contributions	-	-	101,240	101,240
Appropriation of endowment assets for expenditure	-	(434,722)	-	(434,722)
Fund adjustments and transfers	-	(44,055)	(4,750)	(48,805)
Endowment net assets, end of year	<u>\$ 2,771,587</u>	<u>\$ 2,127,062</u>	<u>\$ 12,363,131</u>	<u>\$ 17,261,780</u>

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,503,003	\$ 40,411	\$ 11,773,149	\$ 14,316,563
Investment return:				
Interest and dividends	-	403,963	-	403,963
Net realized and unrealized loss on long-term investments	270,316	225,143	-	495,459
Net investment return (loss)	270,316	629,106	-	899,422
Contributions	-	-	332,051	332,051
Appropriation of endowment assets for expenditure	-	(385,845)	-	(385,845)
Fund adjustments and transfers	(3,000)	(30,043)	144,800	111,757
Endowment net assets, end of year	<u>\$ 2,770,319</u>	<u>\$ 253,629</u>	<u>\$ 12,250,000</u>	<u>\$ 15,273,948</u>

Note 7 – Society of Exploration Geophysicists

The Society is the sole corporate member of the Foundation and appoints the Foundation's Board of Directors. The Foundation and Society support each other with contributions and the Society provides services for which they are reimbursed by the Foundation. Those transactions for the years ended December 31 are as follows:

	2017	2016
Cash contributions from the Society	\$ -	\$ -
In-kind support from the Society	102,396	120,096
Total support from the Society	<u>\$ 102,396</u>	<u>\$ 120,096</u>
Grant awards to the Society	<u>\$ 2,373,955</u>	<u>\$ 2,111,286</u>
Reimbursement to the Society for fundraising expenses	\$ 87,435	\$ 83,591
Reimbursement to the Society for administration expenses	98,054	84,710
Total reimbursements to the Society	<u>\$ 185,489</u>	<u>\$ 168,301</u>

In-kind support from the Society consists of indirect cost allocation, and is reflected in the Foundation's financial statements as both revenue and expense, with no net overall financial impact to the statements of activities.

The Foundation began reimbursing the Society on January 1, 2016, for 20% of allocated indirect costs. An additional 20% requirement will be added each year until the Foundation is fully reimbursing the Society.

Note 8 – Other Grant Awards

As disclosed in Note 1, the Foundation generally carries out its purpose by providing financial support solely to the Society for specific programs. However, for the year ended December 31, 2017, the Foundation contributed \$100,000 to certain Houston area charities for the aid in the relief efforts due to Hurricane Harvey.

Note 9 – Commitments

The Foundation has committed approximately \$394,000 to the Society for Geoscientists *Without Borders* awards and grants to various universities as of December 31, 2017. The ultimate amount funded for each award and grant is based on the respective project's performance and actual expenditures. No amounts have been accrued in the accompanying financial statements for these commitments.

Note 10 – New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which provides more relevant information about available resources (and the changes in those resources) to donors, grantors, creditors and other users. The most significant aspects of the ASU are as follows: (1) the ASU replaces the current presentation of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two classes of net assets – net assets with donor restrictions and net assets without donor restrictions, (2) the ASU expands the disclosures about the nature and amount of any donor restrictions, board designations of net assets without donor restrictions as well as any underwater endowment funds, (3) the ASU requires expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses, and (4) the ASU requires specific quantitative and qualitative disclosures to improve the ability of financial statement users to assess the entity's available financial resources and the methods by which it manages liquidity and liquidity risk. ASU 2016-14 is to be applied retrospectively, and is effective for years beginning after December 15, 2017, with early adoption permitted. The Foundation will be evaluating the impact this standard will have on its financial statements and related disclosures.