THE UNIVERSITY OF OKLAHOMA FOUNDATION

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CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 and 2011

WITH

INDEPENDENT AUDITORS' REPORT

HoganTaylor LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The University of Oklahoma Foundation, Inc.

We have audited the accompanying consolidated statements of financial position of The University of Oklahoma Foundation, Inc. (the Foundation) as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the consolidated financial position of The University of Oklahoma Foundation, Inc. as of June 30, 2012 and 2011, and the consolidated results of their activities and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

HoganTaylor LLP

October 26, 2012

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THE UNIVERSITY OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 14,704,069	$ 8,137,049
Receivable for investment securities sold	37,860,307	73,014
Pledges receivable, net	48,544,640	54,226,470
Other receivables	1,051,746	2,090,040
Investments	873,896,073	935,621,887
Art collections	38,820,017	38,809,416
Leasehold improvements and equipment, net	2,189,059	2,290,814
Total assets	$ 1,017,065,911	$ 1,041,248,690
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 8,138,737	$ 7,513,226
Conditional gifts	16,580,334	21,580,334
Assets held for others	61,873,439	66,027,740
Charitable remainder trust obligations	3,445,441	4,194,443
Total liabilities	90,037,951	99,315,743
Net assets:		
Unrestricted	(21,489,967)	(21,320,814)
Temporarily restricted	237,915,538	223,687,781
Permanently restricted	710,602,389	739,565,980
Total net assets	927,027,960	941,932,947
Total liabilities and net assets	$ 1,017,065,911	$ 1,041,248,690

See notes to consolidated financial statements.

THE UNIVERSITY OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions	$ 90,213	$ 74,832,818	$ 21,425,026	$ 96,348,057
Investment income:				
Interest, dividends and rent	5,180,766	262,491	6,194,516	11,637,773
Royalties	266,810	53,362	1,794,480	2,114,652
Net realized and unrealized losses on investments	(1,272,539)	(48,468)	(18,487,409)	(19,808,416)
Total investment income (loss)	4,175,037	267,385	(10,498,413)	(6,055,991)
Other revenues	44,898	752,859	751,469	1,549,226
Endowment distributions	8,424,901	26,928,503	(35,353,404)	-
Reinvestment of endowment distributions and donor redesignations	(1,801,937)	3,544,582	(1,742,645)	-
Net assets released from restrictions	95,644,014	(92,098,390)	(3,545,624)	-
Total revenues	106,577,126	14,227,757	(28,963,591)	91,841,292
Expenses				
The University of Oklahoma:				
General university educational assistance	21,933,502	-	-	21,933,502
Salary supplements	23,229,308	-	-	23,229,308
Facilities and equipment	32,941,735	-	-	32,941,735
Student scholarships	19,050,696	-	-	19,050,696
Faculty awards	493,026	-	-	493,026
Operating expenses	4,711,468	-	-	4,711,468
Investment fees	4,386,544	-	-	4,386,544
Total expenses	106,746,279	-	-	106,746,279
Increase (decrease) in net assets	(169,153)	14,227,757	(28,963,591)	(14,904,987)
Net assets, beginning of year	(21,320,814)	223,687,781	739,565,980	941,932,947
Net assets, end of year	$ (21,489,967)	$ 237,915,538	$ 710,602,389	$ 927,027,960

See notes to consolidated financial statements.

THE UNIVERSITY OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions	$ 78,096	$ 73,629,285	$ 71,412,592	$ 145,119,973
Investment income:				
Interest, dividends and rent	4,884,974	215,119	9,350,524	14,450,617
Royalties	219,243	56,009	1,802,677	2,077,929
Net realized and unrealized gains on investments	5,439,040	575,104	122,328,896	128,343,040
Total investment income	10,543,257	846,232	133,482,097	144,871,586
Other revenues	566,767	2,874,849	207,983	3,649,599
Endowment distributions	8,145,085	25,458,839	(33,603,924)	-
Reinvestment of endowment distributions and donor redesignations	(495,119)	(8,806,944)	9,302,063	-
Net assets released from restrictions	91,936,288	(88,641,339)	(3,294,949)	-
Total revenues	110,774,374	5,360,922	177,505,862	293,641,158
Expenses				
The University of Oklahoma:				
General university educational assistance	23,512,680	-	-	23,512,680
Salary supplements	18,776,515	-	-	18,776,515
Facilities and equipment	35,852,491	-	-	35,852,491
Student scholarships	13,066,730	-	-	13,066,730
Faculty awards	555,188	-	-	555,188
Operating expenses	4,420,160	-	-	4,420,160
Investment fees	4,354,691	-	-	4,354,691
Total expenses	100,538,455	-	-	100,538,455
Increase in net assets	10,235,919	5,360,922	177,505,862	193,102,703
Net assets, beginning of year	(31,556,733)	218,326,859	562,060,118	748,830,244
Net assets, end of year	$ (21,320,814)	$ 223,687,781	$ 739,565,980	$ 941,932,947

THE UNIVERSITY OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ (14,904,987)	$ 193,102,703
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Contributions restricted for endowment	(19,682,381)	(80,714,655)
Endowment distributions	35,353,404	33,603,924
Endowment investment loss (income)	10,498,413	(133,482,097)
Net realized and unrealized losses (gains) on nonendowment investments	1,321,007	(6,014,144)
Depreciation expense	184,878	234,258
Change in assets and liabilities:		
Pledges receivable	5,919,402	6,290,063
Other receivables	1,038,294	(397,516)
Accounts payable and accrued liabilities	134,846	(846,060)
Assets held for others	(4,154,301)	-
Charitable remainder trust obligations	(749,002)	1,339,887
Net cash provided by operating activities	14,959,573	13,116,363
Cash Flows from Investing Activities		
Purchase of investments	(167,100,936)	(249,685,517)
Proceeds from sale of investments	179,948,282	174,423,038
Endowment distributions	(35,353,404)	(33,603,924)
Capital expenditures	(83,123)	(129,491)
Net cash used in investing activities	(22,589,181)	(108,995,894)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for endowment	14,196,628	40,741,273
Proceeds from agency transactions	-	60,195,900
Net cash provided by financing activities	14,196,628	100,937,173
Net increase in cash and cash equivalents	6,567,020	5,057,642
Cash and cash equivalents, beginning of year	8,137,049	3,079,407
Cash and cash equivalents, end of year	$ 14,704,069	$ 8,137,049

See notes to consolidated financial statements.

Note 1 – Nature of Operations and Consolidation

The University of Oklahoma Foundation, Inc. (the Foundation) is a not-for-profit corporation organized and operated for the purpose of receiving and administering gifts for the benefit of The University of Oklahoma (the University). The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiaries: University North Park, LLC (North Park), a not-for-profit limited liability company that owns undeveloped real property; UNP Realty Investors, LLC (UNP Realty), a not-for-profit limited liability company that provides financing for activities related to North Park's investments in real property; Avilla Principis, LLC, a limited liability company that conducts certain real estate loan transactions; University Amphora, LLC (Amphora), a not-for-profit limited liability company that enters into real-estate agreements; and Santa Chiara SRL (Santa Chiara) a foreign, wholly owned subsidiary of Amphora that owns certain real estate. Also included in the accompanying consolidated financial statements are the accounts of Foundation for Engineering at the University of Oklahoma, Inc., a supporting organization of the Foundation. The by-laws of the supporting organization require that a majority of the members of the Board of Directors be appointed by the Foundation.

Although the University is the exclusive beneficiary of the Foundation, the Foundation is independent of the University in all respects. The Foundation is not a subsidiary or affiliate of the University and is not directly or indirectly controlled by the University. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University. The University is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The University does not have the power or authority to mortgage, pledge or encumber the assets of the Foundation. The Board of Trustees of the Foundation is entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the University. Under State law, neither the principal nor income generated by the assets of the Foundation can be taken into consideration in determining the amount of the state-appropriated funds allocated to the University. Third parties dealing with the University, the Oklahoma State Regents for Higher Education and the State of Oklahoma (or any agency thereof) should not rely upon the financial statements of the Foundation for any purpose without consideration of all of the foregoing conditions and limitations.

Distributions of amounts held in funds by the Foundation are subject to the approval of the Foundation's Board of Trustees. General university educational assistance includes expenditures made in accordance with the fund purpose ranging from general supplies to specific projects within a department or school of the University. Salary supplements are processed through the University's payroll system. Upon receiving adequate documentation, the Foundation will reimburse the University for such expenditures. Student and faculty awards are based on program guidelines established by the donors.

Note 2 – Summary of Significant Accounting Policies

<u>Cash and cash equivalents</u>

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

Pledges receivable

Unconditional promises to give are recorded as contributions in the period in which a written or oral agreement to contribute cash or other assets is received. Credit losses are provided for based on periodic assessments of outstanding pledges, particularly those pledges which are past due as well as historical trends related to the collection of pledges receivable. The Foundation's periodic evaluation of credit losses is based on known and inherent risks in the portfolio, adverse situations that may affect the donor's ability to pay and current economic conditions. The Foundation's periodic assessment of pledges receivable and credit loss provisions are based on the Foundation's best estimates of pledges which may not be recoverable. Pledges are written off when deemed uncollectible.

Unconditional promises to give expected to be collected within one year are reported at their net realizable value. Unconditional promises to give expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discounts are amortized and reported in contribution revenue.

Investments

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Real estate is valued at the lower of cost or fair value at time of donation. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value, and realized gains and losses on other investments.

Art collections

All collections of works of art, historical treasures and similar assets are carried at the lower of cost or fair value at the time of donation.

Leasehold improvements and equipment

Equipment is depreciated on a straight-line basis over the estimated useful life of each asset. Assets under leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Conditional gifts

The Foundation receives contributions with terms that require return of the contribution to the donor on the occurrence of specified future and uncertain events. The Foundation reports such contributions as liabilities until the likelihood of not meeting the condition is remote. Conditional promises to give are not recorded as assets and revenue until the conditions are substantially met and the gift becomes unconditional.

Assets held for others

The Foundation recognizes a liability for the fair value of investments it maintains and manages on behalf of other not-for-profit organizations.

Charitable remainder trusts

The Foundation receives gifts of the future interests in charitable remainder trusts. Under the related agreements, the donors retain the rights to periodic distributions from the trusts for specified terms. At the end of the trusts' terms, the assets of the trusts become the property of the Foundation. Charitable remainder trust contributions are recorded as gifts in the year received. The contribution amounts recorded represent the difference between the fair market value of the assets donated and the present value of future expected distributions to the donors. Related liabilities for the present value of the future expected distributions to the donors are recorded as liabilities under charitable remainder trusts.

Temporarily and permanently restricted net assets

Contributions received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions restricted by the donor in which the restriction is met in the same year are recorded as temporarily restricted and then released from restriction.

Investment return is reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor-imposed restrictions.

Income taxes

The Foundation and supporting organization are nonprofit corporations and are exempt from income taxes under Internal Revenue Code Section 501(c)(3). However, the Foundation is subject to federal income tax on any unrelated business taxable income. No provision for income taxes is included in the accompanying financial statements.

The accounting for income taxes may, at times, involve some degree of uncertainty, and as such, lead to uncertain tax positions having been taken. Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years prior to 2009.

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 prior year amounts have been reclassified to conform to the current year's financial statement presentation. These reclassifications did not affect the previously reported change in net assets.

Subsequent events

Subsequent events have been evaluated through October 26, 2012, the date the financial statements were available to be issued.

Note 3 – Pledges Receivable

Pledges receivable are recorded at present values based on the payment schedules indicated by the donors. Present value is calculated using a risk-free interest rate estimated based on the yield of U.S. Treasury securities with a five-year maturity. The total present value discount, which is reflected in the following schedules, was $1,133,170 and $2,463,362 as of June 30, 2012 and 2011, respectively.

The scheduled discounted and undiscounted payment amounts as of June 30 are as follows:

	2012			
Year	Temporarily Restricted	Permanently Restricted	Total Discounted	Total Undiscounted
2013	$ 16,062,658	$ 6,473,599	$ 22,536,257	$ 22,696,266
2014	5,395,338	2,790,175	8,185,513	8,302,160
2015	4,865,151	2,562,975	7,428,126	7,587,471
2016	4,158,239	2,333,313	6,491,552	6,677,884
2017	3,160,117	2,259,720	5,419,837	5,614,993
Thereafter	3,362,127	2,711,684	6,073,811	6,389,492
	37,003,630	19,131,466	56,135,096	57,268,266
Less: allowance for doubtful accounts	7,101,594	488,862	7,590,456	7,590,456
Total pledges receivable, net	$ 29,902,036	$ 18,642,604	$ 48,544,640	$ 49,677,810

	2011			
Year	Temporarily Restricted	Permanently Restricted	Total Discounted	Total Undiscounted
2012	$ 24,058,557	$ 11,870,594	$ 35,929,151	$ 36,481,032
2013	5,437,390	2,105,572	7,542,962	7,783,203
2014	2,521,325	1,696,923	4,218,248	4,421,368
2015	2,141,338	1,389,471	3,530,809	3,759,300
2016	1,846,519	1,173,714	3,020,233	3,266,490
Thereafter	4,235,004	3,716,469	7,951,473	8,944,845
	40,240,133	21,952,743	62,192,876	64,656,238
Less: allowance for doubtful accounts	4,418,697	3,547,709	7,966,406	7,966,406
Total pledges receivable, net	$ 35,821,436	$ 18,405,034	$ 54,226,470	$ 56,689,832

Note 4 – Investments

Investments consisted of the following at June 30:

	2012	2011
Investments measured at fair value:		
Equity securities	$ 148,270,652	$ 120,993,693
Corporate bonds	144,355	1,972,944
U.S. government securities	91,723,963	80,435,845
Mutual funds	142,693,372	161,336,673
Master trusts	219,279,654	289,256,655
Money market funds	16,852,695	28,569,399
Alternative investments	234,383,918	230,590,862
	853,348,609	913,156,071
Investments measured at other carrying value:		
Real estate	17,557,699	19,530,008
Other investments	2,989,765	2,935,808
	20,546,464	22,465,816
	$ 873,896,073	$ 935,621,887

Pooled investments

The Foundation's investments are pooled for investment management purposes as follows:

> *Consolidated Investment Fund* – Investments in this pool consist primarily of equity securities, U.S. government securities, corporate bonds and alternative holdings.
>
> *Expendable Investment Pool* – Investments in this pool primarily include U.S. government securities and money market holdings.

Ownership interests in each pool are unitized. The Foundation calculates the net asset value per unit monthly based on the value of the underlying assets in each pool. New investments and withdrawals from these pools for the benefit of the various internal funds and investments held for others are transmitted at the net asset value per unit on the monthly valuation dates. With the exception of alternative investments, the pooled funds are held in the custody of the Bank of New York-Mellon.

Investments not included in the pooled investment funds consist of U.S. government securities, corporate and other bonds, equity securities, mutual funds, money market funds, real property, student loans, and cash surrender value of life insurance policies.

Investments are included in the following pools at June 30:

	2012	2011
Consolidated Investment Fund	$ 669,368,351	$ 746,357,331
Expendable Investment Pool	159,170,752	132,225,657
Nonpooled investments	45,356,970	57,038,899
	$ 873,896,073	$ 935,621,887

Carrying values of investments

Investments are initially recorded at their acquisition cost (including brokerage and other transaction fees) if they were purchased or at fair value at the date of contribution if they were received as contributions. Securities contributed to the Foundation for which a value cannot be reasonably determined are recorded at a nominal amount of $1. Investments in equity securities with readily determinable fair values and all investments in debt securities are subsequently remeasured at fair value. Fair value is determined by quoted market prices, if available, or by a reasonable estimate of fair value for certain debt securities. Nonmarketable investments, consisting primarily of real property, are initially recorded at appraised value on the date donated or at cost. They are subsequently reported at the lower of cost or fair value.

Note 5 – Leasehold Improvements and Equipment

Leasehold improvements and equipment consist of the following at June 30:

	2012	2011
Computer equipment and software	$ 692,762	$ 630,346
Buildings and leasehold improvements	1,978,008	1,978,008
Other equipment	337,144	370,726
Furniture and fixtures	465,872	465,872
	3,473,786	3,444,952
Less accumulated depreciation and amortization	(1,284,727)	(1,154,138)
	$ 2,189,059	$ 2,290,814

Note 6 – Conditional Gifts

The 1988 Oklahoma Legislature approved funding to the Oklahoma State Regents for Higher Education for the purpose of establishing an endowment matching program to support the establishment of faculty chairs and professorships to improve the quality of instruction and research at colleges and universities of The Oklahoma State System of Higher Education. Some of the endowed faculty position agreements with the Foundation include a clawback provision that states that if the Public Matching Funds have not been placed in the State Regents' Endowment Account on or before three years after the date of the agreement, then the Donors shall have the right to request and receive a full refund of the amount contributed by the Donors to the Foundation Endowment Account. Other endowed faculty positions agreements with the Foundation include clawback provisions that are not related to the Public Matching Funds but to the occurrence of specified future and uncertain events. The total of such conditional gifts as of June 30, 2012 and 2011, is $16,580,334 and $21,580,334, respectively. No refunds have been requested by donors.

Note 7 – Assets Held for Others

The Foundation holds and invests certain endowment funds in trust on behalf of the Presbyterian Health Foundation (PHF). Pursuant to an investment agreement dated October 15, 2010, certain PHF endowment assets have been placed with the Foundation and invested in the Foundation's Consolidated Investment Fund. The PHF investment funds are subject to the same investment management and distribution policies as the Foundation investments. The initial term of the agreement ends October 31, 2012, with a provision to automatically renew annually thereafter. PHF is independent of the Foundation in all respects. PHF is not a subsidiary or affiliate of the Foundation and is not directly or indirectly controlled by the Foundation. Moreover, the endowment assets are the exclusive property of PHF and do not belong to the Foundation. The Foundation does not have ownership of any of the financial and capital resources of PHF. The directors or trustees of PHF are entitled to make all decisions regarding the business and affairs of PHF. Neither the principal nor income generated by the net assets of PHF can be taken into consideration in determining the amount of net assets of the Foundation. PHF does not have an ownership interest, beneficial or outright, in, or any voting rights with respect to the Foundation.

Note 8 – Related Party Transactions

The Foundation makes certain purchases through the University, and the University provides certain services to the Foundation. The Foundation's management believes that the purchases made and services received were at prices and terms comparable to those that would be obtained in similar transactions with unrelated parties. In addition, the Foundation reimburses the University for various individuals' time and expenses relating to fund-raising activities. Substantially all amounts due for such transactions were paid to the University prior to June 30, 2012 and 2011.

On September 10, 2010, the Foundation, via Amphora, acquired 100% of the shares of Santa Chiara, whose sole asset is a monastery in Arezzo, Italy. The purchase price was $2,706,350. The acquisition cost was funded from private funds, and renovations to the property will be funded by the University. The University entered into a lease agreement with Santa Chiara and Amphora for the monastery. The monastery will be used for academic programs and unique educational experiences in Europe for University students.

In September 2003, North Park purchased from the University undeveloped real property (the Property) for $13,324,475. The Foundation has agreed that after North Park has recovered its investment (including the initial purchase price and all costs incurred in connection with the ownership, development and disposition of the Property) in the Property either through a sale of the Property, or through leasing the Property at a specified rate of return, all remaining revenues generated from the Property would be deposited by the Foundation in a permanent, unrestricted endowment fund for the benefit of the University.

Effective July 1, 2012, the University agreed to monetize and sell to the Foundation its future profit interest from the sale of the Property. Payments to the University will be made annually over the course of four years as follows:

Year	Amount
2013	$ 1,250,000
2014	1,500,000
2015	1,750,000
2016	2,000,000
	$ 6,500,000

As of July 1, 2012, the present value of this profit interest, calculated using the expected future return of the Consolidated Investment Fund, was $5,700,000.

In June 2009, UNP Realty entered into a Tax Increment Revenue Note with the Norman Tax Increment Finance Authority, a public trust created pursuant to the laws of the state of Oklahoma, to advance funds that will be used to pay certain project costs authorized by the Project Plan for the University North Park Project (the TIF Loan). The maximum amount to be advanced under the TIF Loan shall be $14,560,000. As of June 30, 2012 and 2011, UNP Realty had advanced $6,175,153 and $5,789,454, respectively.

Note 9 – Endowment

The Foundation's endowment consists of approximately 2,900 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (board-designated endowment funds). The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The Foundation has a policy (the spending policy) of distributing to beneficiaries each year a percentage of the endowment fund's average fair value over the prior 12 quarters through the year-end preceding the year in which expenditure is planned. In establishing the percentage for distribution, the Foundation considers the long-term expected return on its endowment. The Foundation has established a distribution rate of 5% for beneficiaries and also distributes 1% annually into its operating fund for administrative expenses. Over the long term, the Foundation expects the current spending policy will allow its endowment to grow at an average of 3% annually. Actual returns in any given year will vary from the amount distributed. This spending policy supports the Foundation's objective to maintain the purchasing power of endowment assets. The spending policy is reviewed annually by the Foundation's Board of Trustees.

Due to the difference in the long-term rate of return objectives used in determining the spending policy and actual short term investment returns, as of June 30, 2012, the fair value of endowment investments for approximately 1,500 endowment funds were less than the value of the original gift by approximately $54,000,000. At June 30, 2011, there were approximately 1,100 endowment funds less than the original gift value by approximately $28,000,000. The Foundation monitors these conditions and, if necessary, will take appropriate steps including modifying distributions to the beneficiaries of the affected endowment funds in order to maintain their long-term fiscal health.

Some of the individual endowment funds were created under agreements that provide for the permanent retention of investment returns in excess of or less than endowments distributions made available to the endowments' beneficiaries. For all other endowments, the Foundation's Board of Trustees has interpreted the State of Oklahoma Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the purchasing power of the original gift. Under the Foundation's investment return objectives and spending policy, over the long term, the Foundation expects that the real value of the endowment will be maintained in perpetuity. As a result of explicit endowment agreements and interpretation of donor intent, the Foundation classifies as permanently restricted net assets (a) the original value of all gifts donated to the endowment, (b) accumulation of investment returns in excess of or less than amounts distributed under the Foundation's spending policy, and (c) endowment distributions that are returned to the endowment fund.

Endowment fund distributions are placed in separate accounts maintained in short-term highly liquid investments and are distributed to beneficiaries as they are expended. Unexpended endowment fund distributions are reported as either unrestricted or temporarily restricted net assets depending on donor stipulations. The fair value of unexpended endowment distributions available for expenditure by endowment beneficiaries as of June 20, 2012 and 2011, are $46,421,581 and $45,563,101, respectively.

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

	Board Designated	Donor Restricted	Total
2012:			
Endowment net assets, beginning of year	$ 15,558,870	$ 739,565,980	$ 755,124,850
Investment return:			
Investment income	321,573	7,988,996	8,310,569
Net depreciation	(1,268,923)	(18,487,409)	(19,756,332)
Total investment loss	(947,350)	(10,498,413)	(11,445,763)
Contributions	40,282	22,176,495	22,216,777
Reinvestment of endowment distributions and donor redesignations	-	(1,742,645)	(1,742,645)
Distributions	(678,404)	(35,353,404)	(36,031,808)
Investment fees	-	(3,545,624)	(3,545,624)
Endowment net assets, end of year	$ 13,973,398	$ 710,602,389	$ 724,575,787
2011:			
Endowment net assets, beginning of year	$ 13,007,437	$ 562,060,118	$ 575,067,555
Investment return:			
Investment income	549,100	11,153,201	11,702,301
Net appreciation	1,999,833	122,328,896	124,328,729
Total investment return	2,548,933	133,482,097	136,031,030
Contributions	2,500	71,620,575	71,623,075
Reinvestment of endowment distributions and donor redesignations	-	9,302,063	9,302,063
Distributions	-	(33,603,924)	(33,603,924)
Investment fees	-	(3,294,949)	(3,294,949)
Endowment net assets, end of year	$ 15,558,870	$ 739,565,980	$ 755,124,850

Endowment funds were comprised of the following assets at June 30:

	2012	2011
Pledges receivable	$ 18,642,604	$ 18,405,034
Investments	667,113,166	697,910,400
Art collections	38,820,017	38,809,416
	$ 724,575,787	$ 755,124,850

Note 10 – Operating Lease

In the early 1980s, the Foundation raised funds through a special fund drive to construct a building currently occupied by the Foundation on land owned by the University. Upon completion, the building was given to the University. The Foundation leases the land and related improvements from the University for $1 per year. The lease has been prepaid through the expiration date in 2083.

Note 11 – Retirement Plan

The Foundation has a defined contribution 401(k) plan covering all eligible employees. Under this plan, the Foundation contributes 10% of an employee's annual salary plus 100% of the employee's elective deferrals up to 3%. Contribution expense was $251,363 and $237,607 for 2012 and 2011, respectively.

Note 12 – Fair Value Measurement

The Financial Accounting Standards Board Accounting Standards Codification established a consistent framework for measuring fair value and 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.

<u>Investments</u>

Investments measured at fair value on a recurring basis at June 30, are summarized as follows:

2012	Fair Value	Level 1	Level 2	Level 3
Equity securities:				
Consumer	$ 43,253,380	$ 43,253,380	$ -	$ -
Energy, materials and industrial	35,295,120	25,323,158	-	9,971,962
Technology	19,812,211	19,812,211	-	-
Healthcare	13,485,339	13,485,339	-	-
Financial	10,507,062	10,507,062	-	-
Other	25,917,540	25,917,540	-	-

2012	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
Corporate bonds	144,355	144,355	-	-
U.S. government securities	91,723,963	91,723,963	-	-
Mutual funds:				
Fixed income	67,538,154	67,538,154	-	-
Large cap	62,056,007	62,056,007	-	-
International	9,132,421	9,132,421	-	-
Other	3,966,790	3,966,790	-	-
Master trusts:				
Fixed income	28,360,352	-	28,360,352	-
International	174,297,404	-	174,297,404	-
Commodities	16,621,898	-	16,621,898	-
Money market funds	16,852,695	16,852,695	-	-
Alternative investments	234,383,918	-	-	234,383,918
Total	$ 853,348,609	$ 389,713,075	$ 219,279,654	$ 244,355,880

2011	Fair Value	Level 1	Level 2	Level 3
Equity securities:				
Consumer	$ 43,882,296	$ 43,882,296	$ -	$ -
Energy, materials and industrial	29,097,728	29,097,728	-	-
Technology	20,754,753	20,754,753	-	-
Healthcare	13,695,390	13,695,390	-	-
Other	13,563,526	13,563,526	-	-
Debt securities:				
Corporate bonds	1,972,944	1,972,944	-	-
U.S. government securities	80,435,845	80,435,845	-	-
Mutual funds:				
Fixed income	72,476,241	72,476,241	-	-
Large cap	66,929,540	66,929,540	-	-
International	11,697,676	11,697,676	-	-
Other	10,233,216	10,233,216	-	-
Master trusts:				
Fixed income	27,681,447	-	27,681,447	-
Large cap	30,219,609	-	30,219,609	-
International	200,972,725	-	200,972,725	-
Commodities	30,382,874	-	30,382,874	-
Money market funds	28,569,399	28,569,399	-	-
Alternative investments	230,590,862	-	-	230,590,862
Total	$ 913,156,071	$ 393,308,554	$ 289,256,655	$ 230,590,862

Following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position at June 30, 2012 and 2011, using significant unobservable (Level 3) inputs:

	Mortgage Backed Securities	Closely Held Common Stock	Alternative Investments	Total
Balance at June 30, 2010	$ 7,017,449	$ -	$ 134,115,979	$ 141,133,428
Total realized and unrealized gains	-	-	23,078,993	23,078,993
Purchases	-	-	80,305,516	80,305,516
Sales	(7,017,449)	-	(6,909,626)	(13,927,075)
Balance at June 30, 2011	-	-	230,590,862	230,590,862
Total realized and unrealized losses	-	-	(1,142,537)	(1,142,537)
Purchases	-	-	46,063,272	46,063,272
Contributions	-	10,472,000	-	10,472,000
Sales	-	(500,038)	(41,127,679)	(41,627,717)
Balance at June 30, 2012	$ -	$ 9,971,962	$ 234,383,918	$ 244,355,880

Master trusts

The fair value of Master trusts has been estimated using the net asset value as reported by the fund managers. Master trust balances are redeemable on the valuation date at the net asset value. The fund managers estimate net asset value based on the fair value of the underlying investments of the master trusts, which are primarily valued with Level 1 inputs.

Alternative investments

The fair value of alternative investments has been estimated using the net asset value per share of the investments as reported by the fund managers.

Alternative investments held at June 30 consist of the following:

2012	Cost	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity long/short hedge funds (a)	$ 173,872,312	$ 163,413,908	$ -	Quarterly – 3 years	30 – 90 days
Real estate funds (b)	7,024,618	7,964,656	13,985,458	N/A	N/A
Private equity funds (c)	54,736,109	63,005,354	83,436,506	N/A	N/A
	$ 235,633,039	$ 234,383,918	$ 97,421,964		
2011					
Equity long/short hedge funds (a)	$ 173,641,550	$ 186,151,497	$ -	Quarterly – 3 years	30 – 90 days
Real estate funds (b)	4,773,209	4,974,728	9,954,475	N/A	N/A
Private equity funds (c)	35,228,646	39,464,637	59,037,712	N/A	N/A
	$ 213,643,405	$ 230,590,862	$ 68,992,187		

(a) This class, whose purpose in the overall portfolio is to provide diversification and reduce volatility of returns, includes investments in two broad types of hedge funds referred to as long/short equity funds and absolute return funds. Hedge funds take both long and short positions, primarily in common stocks, credit securities and arbitrage trades. Management of the funds has the ability to shift investments among differing strategies according to their specific mandate. Some of the funds in this class are subject to lock-up periods where funds cannot be redeemed (without being subjected to a penalty) for as long as three years after the anniversary date of the investment. As of June 30, 2012, 82% of the funds in the hedge fund category can be redeemed in less than 12 months and only 7% of the funds could not be redeemed within two years. Of that portion, approximately 4% are in illiquid side pockets with an indefinite redemption period. Side pockets can only be redeemed upon realization of the underlying investment which is entirely at the discretion of the hedge fund manager. Fund managers calculate net asset value based on the fair value of the underlying assets, which are primarily valued with Level 1 inputs.

(b) This class includes real estate limited partnerships that invest in diversified portfolios of real property. These investments cannot be redeemed, and are subject to the terms of the individual funds. The funds typically have lives of up to ten years (with the potential for extensions if necessary), and distributions are at the discretion of the general partners and are usually only made after the liquidation of the properties within the fund. The general partners calculate net asset value based on the fair value of the underlying investments, which are primarily valued with Level 3 inputs.

(c) This class includes private equity limited partnerships which may be more specifically referred to as private equity buyout funds, venture capital funds, distressed-for-control funds, mortgage-backed securities funds, natural resource funds or energy funds. The fund managers or general partners typically invest in the equity or debt of privately held companies with the anticipation of selling them to another party or taking them public in future years. These investments cannot be redeemed and are subject to the terms of the individual funds. The funds typically have lives of up to ten years (with the potential for extensions if necessary), and distributions are at the discretion of the general partners and are usually only made after the realization of investments within the fund. The general partners calculate net asset value based on the fair value of the underlying investments, which are valued with Level 1, 2, and 3 inputs.

Assets held for others

The fair value of assets held for others is based on the net asset value of the Consolidated Investment Fund, a Level 3 input. The underlying investments of the Consolidated Investment Fund include significant amounts of Level 1, 2 and 3 inputs. The investment agreement related to the assets held for others includes restrictions and notice requirements for redemptions.

Other financial instruments

The carrying amounts of other financial instruments, including cash, cash equivalents, receivables, accounts payable and cash value of life insurance policies approximates fair value due to the short-term maturity of these instruments.

Note 13 – Significant Estimates and Concentrations

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of cash, pledges receivable and investments. Concentrations of credit risk with respect to pledges receivable are limited due to the large number of donors comprising the Foundation's donor base. The Foundation’s three largest donors with pledges receivable, net of allowance accounted for 49% and 51% of total pledges receivable, net of allowance as of June 30, 2012 and 2011, respectively. At times, bank deposit balances may exceed FDIC insurance limits.

All investments are managed within established guidelines which limit the amounts which may be invested with one issuer. 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 securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.