

# **The University of Oklahoma Foundation, Inc.**

Accountants' Report and Consolidated Financial Statements

June 30, 2010 and 2009





**The University of Oklahoma Foundation, Inc.**  
**June 30, 2010 and 2009**

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## Independent Accountants' Report on Consolidated Financial Statements

The Board of Trustees  
The University of Oklahoma Foundation, Inc.  
Norman, Oklahoma

We have audited the accompanying consolidated statements of financial position of The University of Oklahoma Foundation, Inc. (the Foundation) as of June 30, 2010 and 2009, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Oklahoma Foundation, Inc., as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*BKD LLP*

September 9, 2010

**The University of Oklahoma Foundation, Inc.**  
**Consolidated Statements of Financial Position**  
**June 30, 2010 and 2009**

**Assets**

	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	\$ 3,079,407	\$ 3,805,860
Pledges receivable, net of discount 2010 – \$2,663,805, 2009 – \$5,407,376; and net of allowance 2010 – \$8,163,437 2009 – \$2,075,239	55,710,228	75,526,935
Other receivables		
Dividends and interest	1,534,305	1,520,959
Investment securities sold	190,209	536,513
Other	41,024	178,273
Investments	742,968,765	692,492,383
Other assets	68,990	165,290
Leasehold improvements and equipment at cost, net of accumulated depreciation; 2010 – \$1,115,813, 2009 – \$1,079,595	2,326,591	1,816,051
Total assets	\$ 805,919,519	\$ 776,042,264

**Liabilities and Net Assets**

**Liabilities**

Payables		
Investment securities purchased	\$ 519,403	\$ 6,469,811
Other	7,839,883	9,918,754
Contingent liabilities under the State Regents Matching Fund Program	45,875,433	87,116,326
Liabilities under charitable remainder trusts	2,854,556	3,196,219
Total liabilities	57,089,275	106,701,110

**Net Assets**

Unrestricted	(31,556,733)	(40,086,483)
Temporarily restricted	218,326,859	243,617,970
Permanently restricted	562,060,118	465,809,667
Total net assets	748,830,244	669,341,154
Total liabilities and net assets	\$ 805,919,519	\$ 776,042,264

**The University of Oklahoma Foundation, Inc.**  
**Consolidated Statements of Activities**  
**Years Ended June 30, 2010 and 2009**

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues</b>				
Contributions	\$ 107,765	\$ 58,824,832	\$ 65,541,986	\$ 124,474,583
Investment income				
Interest, dividends and rent	5,504,679	305,378	8,546,055	14,356,112
Royalties	186,763	29,044	1,534,558	1,750,365
Net realized gains (losses) on sales of investments	1,003,243	(276,290)	22,228,340	22,955,293
Net unrealized gains on investments	4,955,141	77,529	34,348,078	39,380,748
Total investment income	<u>11,649,826</u>	<u>135,661</u>	<u>66,657,031</u>	<u>78,442,518</u>
Other activity				
Other program activity	(283,991)	4,234,013	213,726	4,163,748
Interfund transfers	2,273,740	(5,782,187)	3,508,447	-
Pooled fund income distributions	6,600,650	29,382,211	(35,982,861)	-
Net assets released from restrictions	<u>115,773,519</u>	<u>(112,085,641)</u>	<u>(3,687,878)</u>	<u>-</u>
Total other activity	<u>124,363,918</u>	<u>(84,251,604)</u>	<u>(35,948,566)</u>	<u>4,163,748</u>
Total revenues	<u>136,121,509</u>	<u>(25,291,111)</u>	<u>96,250,451</u>	<u>207,080,849</u>
<b>Expenses</b>				
The University of Oklahoma				
General university educational assistance	21,250,143	-	-	21,250,143
Salary supplements	21,644,682	-	-	21,644,682
Facilities and equipment	48,630,737	-	-	48,630,737
Student awards	25,740,403	-	-	25,740,403
Faculty awards	601,376	-	-	601,376
Operating expenses	4,468,291	-	-	4,468,291
Investment fees	4,299,586	-	-	4,299,586
Other	<u>956,541</u>	<u>-</u>	<u>-</u>	<u>956,541</u>
Total expenses	<u>127,591,759</u>	<u>-</u>	<u>-</u>	<u>127,591,759</u>
<b>Increase (Decrease) in Net Assets</b>	8,529,750	(25,291,111)	96,250,451	79,489,090
<b>Net Assets, Beginning of Year</b>	<u>(40,086,483)</u>	<u>243,617,970</u>	<u>465,809,667</u>	<u>669,341,154</u>
<b>Net Assets, End of Year</b>	<u>\$ (31,556,733)</u>	<u>\$ 218,326,859</u>	<u>\$ 562,060,118</u>	<u>\$ 748,830,244</u>

	<b>2009</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues</b>				
Contributions	\$ 1,558,836	\$ 81,334,176	\$ 24,912,738	\$ 107,805,750
Investment income (loss)				
Interest, dividends and rent	81,434	3,209,179	14,147,653	17,438,266
Royalties	386,790	134,155	2,142,259	2,663,204
Net realized losses on sales of investments	(51,182,476)	(67,841)	(162,402,127)	(213,652,444)
Net unrealized gains (losses) on investments	(3,859)	87,919	34,833,281	34,917,341
Total investment income (loss)	(50,718,111)	3,363,412	(111,278,934)	(158,633,633)
Other activity				
Other program activity	3,979	2,149,880	(302,741)	1,851,118
Interfund transfer activity, net	(5,411,550)	1,004,661	4,406,889	-
Pooled fund income distributions	9,794,628	32,054,597	(41,849,225)	-
Net assets released from restrictions	100,332,074	(98,348,463)	(1,983,611)	-
Total other activity	104,719,131	(63,139,325)	(39,728,688)	1,851,118
Total revenues	55,559,856	21,558,263	(126,094,884)	(48,976,765)
<b>Expenses</b>				
The University of Oklahoma				
General university educational assistance	18,960,952	-	-	18,960,952
Salary supplements	28,821,589	-	-	28,821,589
Facilities and equipment	42,019,236	-	-	42,019,236
Student awards	14,691,115	-	-	14,691,115
Faculty awards	484,897	-	-	484,897
Operating expenses	3,800,118	-	-	3,800,118
Investment fees	2,451,614	-	-	2,451,614
Other	227,062	-	-	227,062
Total expenses	111,456,583	-	-	111,456,583
<b>Increase (Decrease) in Net Assets</b>	(55,896,727)	21,558,263	(126,094,884)	(160,433,348)
<b>Net Assets, Beginning of Year</b>	15,810,244	222,059,707	591,904,551	829,774,502
<b>Net Assets, End of Year</b>	\$ (40,086,483)	\$ 243,617,970	\$ 465,809,667	\$ 669,341,154

**The University of Oklahoma Foundation, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Operating Activities</b>		
Increase (decrease) in net assets	\$ 79,489,090	\$ (160,433,348)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Net realized and unrealized (gains) losses on investments	(39,380,747)	178,735,103
Depreciation	956,541	227,062
(Increase) decrease in pledges receivable	19,816,707	(10,305,962)
Decrease in other receivables and assets	566,507	13,748,676
Decrease in payables	(8,029,279)	(80,787,452)
Decrease in liabilities under conditional promises	(41,240,893)	-
Increase (decrease) in liabilities under charitable remainder trusts	(341,663)	781,448
	<u>11,836,263</u>	<u>(58,034,473)</u>
Net cash provided by (used in) operating activities		
<b>Investing Activities</b>		
Purchase of investments	(118,558,285)	(2,961,716,265)
Proceeds from sale of investments	107,462,650	3,008,204,953
Capital expenditures	(1,467,081)	(906,497)
	<u>(12,562,716)</u>	<u>45,582,191</u>
Net cash provided by (used in) investing activities		
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(726,453)</b>	<b>(12,452,282)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>3,805,860</b>	<b>16,258,142</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 3,079,407</b>	<b>\$ 3,805,860</b>



**The University of Oklahoma Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

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; and University Amphora, LLC (Amphora), a not-for-profit limited liability company that enters into real-estate agreements.

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 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 approved by the respective fund sponsors are paid directly to the University and are then processed through the University's payroll system. Student and faculty awards are based on program guidelines established by the donors.

***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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**The University of Oklahoma Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

***Cash and Cash Equivalents***

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

The financial institutions holding the Foundation's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

Effective October 3, 2008, the FDIC's insurance limits were temporarily increased to \$250,000, which was set to expire December 31, 2013. On July 21, 2010, the FDIC insurance limits were permanently raised to \$250,000. At June 30, 2010 and 2009, the Foundation's cash accounts exceeded federally insured limits by approximately \$ 235,000 and \$0, respectively.

***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. 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.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other 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 or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowments and special funds. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated to the individual endowments based on the relationship of the fair value of the interest of each endowment fund to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

***Pledges Receivable***

Unconditional pledges are recorded as gifts 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.

**The University of Oklahoma Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

***Charitable Remainder Trusts***

The Foundation receives gifts of 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.

***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.

***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts 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. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case, the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held; expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service. The Foundation attempts to sell any property received as a gift at a reasonable price, as reflected by the current market, as soon as reasonably possible. However, all gifts of property are reviewed on a case-by-case basis and may be considered for retention.

**The University of Oklahoma Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

***Collections***

All collections of works of art, historical treasures and similar assets are capitalized. Items added to the collections are capitalized at cost if purchased, or at estimated fair value on the acquisition date if donated. Collection items sold or removed are reported as unrestricted or temporarily restricted gains or losses depending on donor stipulations, if any, placed on the items at the time of acquisition.

The Foundation evaluates the recoverability of the carrying value of long-lived assets, including collections, whenever events or circumstances indicate the carrying amount may not be recoverable. Impairment losses of \$25,340,000 were recognized on certain works of art for losses in fair value for the year ended June 30, 2009. The losses are included in net unrealized gain (losses) on investments in the accompanying 2009 consolidated statement of activities. Fair value was determined based on appraisals. There were no impairment losses recognized for the year ended June 30, 2010.

***Other Revenues***

Other revenues consist of revenues earned on projects and activities conducted on behalf of the University as well as the transfer of investment income from temporarily restricted net assets to unrestricted net assets, as approved by the Board of Trustees, that is utilized to support the operations of the Foundation. Foundation expenses incurred in connection with these projects and activities are recorded as expenses.

***Income Taxes***

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2006.

***Subsequent Events***

Subsequent events have been evaluated through September 9, 2010, which is the date the financial statements were issued.

**The University of Oklahoma Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
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***Transfers Between Fair Value Hierarchy Levels***

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

***Reclassifications***

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on the change in net assets.

**Note 2: Investments**

Investments at June 30 consisted of the following:

	<u>2010</u>	<u>2009</u>
Equity securities	\$ 84,033,074	\$ 86,489,720
Corporate bonds	34,502,269	40,347,601
Mortgaged backed securities	7,017,449	16,539,585
U.S. government securities	58,024,007	69,105,509
Real property	12,860,810	11,504,201
Mutual funds	128,241,506	135,225,883
Master trusts	208,579,548	160,605,536
Money market funds	38,008,287	39,032,092
Art and stamp collection	32,006,301	32,006,301
Alternative investments	134,115,979	92,275,617
Other investments	<u>5,579,535</u>	<u>9,360,338</u>
	<u>\$ 742,968,765</u>	<u>\$ 692,492,383</u>

***Pooled Investment Funds***

Assets of the Foundation consist primarily of investments accounted for as pooled investment funds, which are individually described below.

**Consolidated Investment Fund** – Investments in this fund consist primarily of equity securities, U.S. government securities, corporate bonds and alternative holdings. These investments are for the benefit of the endowment and medical endowment funds. Income is distributed to these funds annually. The Foundation has committed to distribute an annual 5% rate of return based on a trailing 12-quarter quoted market value average of the investments.

**Expendable Investment Pool** – Investments in this fund consist of participation in the Foundation’s Expendable Investment Pool, including U.S. government securities and money market holdings. These investments are for the benefit of the special, medical special, endowment and medical endowment funds.

Investments and withdrawals for the benefit of various funds are permitted periodically from each pooled investment fund based on quoted market values of the investments of the various pooled funds at the dates of investment or withdrawal.

**The University of Oklahoma Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
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**Other Investments**

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

**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 or appraised 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. The Foundation has investments in various investment securities, which in general are exposed to various risks, such as interest rate, credit and overall market volatility risks. Further, due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's financial statements. Nonmarketable investments, consisting primarily of art collections and real property, are carried at appraised value on the date donated or at original cost.

**Alternative Investments**

The fair value of alternative investments have been estimated using the net asset value per share of the investments. Alternative investments held at June 30 consist of the following:

	<b>Cost</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
<b>2010</b>					
Equity long/short					
hedge funds (A)	\$ 109,523,793	\$ 107,322,062	\$ -	Quarterly – 3.25	30–90 days
Real estate funds (B)	1,200,000	1,200,000	1,800,000	N/A	N/A
Private equity funds (C)	29,414,810	25,593,917	40,711,481	N/A	N/A
	<u>\$ 140,138,603</u>	<u>\$ 134,115,979</u>	<u>\$ 42,511,481</u>		
<b>2009</b>					
Equity long/short					
hedge funds (A)	\$ 88,028,899	\$ 74,902,684	\$ 20,669,274	Quarterly – 3.25	45–100 days
Real estate funds (B)	-	-	-	N/A	N/A
Private equity funds (C)	25,149,274	17,372,933	12,826,783	N/A	N/A
	<u>\$ 113,178,173</u>	<u>\$ 92,275,617</u>	<u>\$ 33,496,057</u>		

**The University of Oklahoma Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

- (A) This category, 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 category 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, 2010, 68% of the funds in the hedge fund category can be redeemed in less than 12 months and only 14% of the funds could not be redeemed within two years. Of that portion, approximately 6% 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.
- (B) This category 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 properties within the fund.
- (C) This category includes private equity limited partnerships which may be more specifically referred to as private equity buyout funds, venture capital funds, distressed-for-control funds, or natural resource 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 University of Oklahoma Foundation, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

**Note 3: Pledges Receivable**

Pledges receivable are recorded at present values based on the payment schedules indicated by the donors using risk-free interest rates estimated based on the yield of U.S. Treasury securities with a five-year maturity in effect at June 30, 2010 and 2009. The scheduled payment amounts at net present value and presented without discount as of June 30, 2010 and 2009, are as follows:

	<b>2010</b>			<b>Total Pledges Receivable</b>
	<b>Discounted to Present Value</b>			
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>	
2011	\$ 22,383,109	\$ 9,074,429	\$ 31,457,538	\$ 32,086,688
2012	15,074,010	4,941,666	20,015,676	20,824,309
2013	4,110,692	925,343	5,036,035	5,344,281
2014	1,817,521	542,357	2,359,878	2,554,408
2015	1,032,913	449,394	1,482,307	1,636,586
Thereafter	2,405,371	1,116,860	3,522,231	4,091,197
	<u>46,823,616</u>	<u>17,050,049</u>	<u>63,873,665</u>	<u>66,537,469</u>
Less allowance for doubtful accounts	4,712,117	3,451,320	8,163,437	8,163,437
Total pledges receivable	<u>\$ 42,111,499</u>	<u>\$ 13,598,729</u>	<u>\$ 55,710,228</u>	<u>\$ 58,374,032</u>
	<b>2009</b>			
	<b>Discounted to Present Value</b>			
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>	<b>Total Pledges Receivable</b>
2010	\$ 19,754,319	\$ 5,274,545	\$ 25,028,864	\$ 25,707,177
2011	16,042,855	4,686,088	20,728,943	21,867,676
2012	13,254,133	4,108,031	17,362,164	18,812,307
2013	6,323,333	2,727,774	9,051,107	10,072,856
2014	1,652,322	401,419	2,053,741	2,347,520
Thereafter	3,097,700	279,655	3,377,355	4,202,014
	<u>60,124,662</u>	<u>17,477,512</u>	<u>77,602,174</u>	<u>83,009,550</u>
Less allowance for doubtful accounts	1,607,855	467,384	2,075,239	2,075,239
Total pledges receivable	<u>\$ 58,516,807</u>	<u>\$ 17,010,128</u>	<u>\$ 75,526,935</u>	<u>\$ 80,934,311</u>

Pledges receivable represent unconditional promises by donors to contribute to the Foundation. The promises are to be paid as specified in the individual pledge agreements and, accordingly, are reflected as temporarily restricted or permanently restricted net assets.



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**Note 4: Leasehold Improvements and Equipment**

Property and equipment at June 30 consists of:

	<b>2010</b>	<b>2009</b>
Construction in progress	\$ -	\$ 756,349
Computer equipment and software	622,938	644,624
Buildings and leasehold improvements	1,978,008	754,877
Other equipment	375,586	360,962
Furniture and fixtures	465,872	378,834
	3,442,404	2,895,646
Less accumulated depreciation and amortization	(1,115,813)	(1,079,595)
	\$ 2,326,591	\$ 1,816,051

**Note 5: 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. Most 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. The total of such conditional gifts as of June 30, 2010 and 2009, is \$45,875,433 and \$87,116,326, respectively. No refunds have been requested by donors.

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**Note 6: Allocation of Expenses by Net Asset Classification**

The allocation of expenses among the unrestricted, temporarily restricted and permanently restricted net asset classifications that were released from restrictions and/or were utilized for the various expenses of the Foundation for the years ended June 30 is as follows:

	<b>2010</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
The University of Oklahoma				
General university				
educational assistance	\$ 21,136	\$ 17,542,995	\$ 3,686,012	\$ 21,250,143
Salary supplements	6,236,034	7,441,247	7,967,401	21,644,682
Facilities and equipment	225	47,639,492	991,020	48,630,737
Student awards	-	18,045,705	7,694,698	25,740,403
Faculty awards	-	306,055	295,321	601,376
Operating expenses	4,468,291	-	-	4,468,291
Investment consulting fees	136,013	-	4,163,573	4,299,586
Other	956,541	-	-	956,541
	<u>\$ 11,818,240</u>	<u>\$ 90,975,494</u>	<u>\$ 24,798,025</u>	<u>\$ 127,591,759</u>

	<b>2009</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
The University of Oklahoma				
General university				
educational assistance	\$ 14,718	\$ 15,263,452	\$ 3,682,782	\$ 18,960,952
Salary supplements	6,173,866	7,873,441	14,774,282	28,821,589
Facilities and equipment	908,745	40,791,027	319,464	42,019,236
Student awards	-	7,598,656	7,092,459	14,691,115
Faculty awards	-	435,485	49,412	484,897
Operating expenses	3,800,118	-	-	3,800,118
Investment consulting fees	-	-	2,451,614	2,451,614
Other	227,062	-	-	227,062
	<u>\$ 11,124,509</u>	<u>\$ 71,962,061</u>	<u>\$ 28,370,013</u>	<u>\$ 111,456,583</u>

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**Note 7: 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, 2010 and 2009. Purchases and services between the Foundation and the University were not material in fiscal years 2010 and 2009.

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.

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, 2010 and 2009, UNP Realty had advanced \$4,480,813 and \$4,840,813, respectively.

**Note 8: Endowment**

The Foundation's endowment consists of approximately 2,800 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body has interpreted the State of Oklahoma Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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) accumulations of all investment return to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The composition of net assets by type of endowment fund at June 30, 2010 and 2009, was:

	<b>2010</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 558,821,500	\$ 558,821,500
Board-designated endowment funds	15,020,412	-	15,020,412
	<u>\$ 15,020,412</u>	<u>\$ 558,821,500</u>	<u>\$ 573,841,912</u>
	<b>2009</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 455,932,282	\$ 455,932,282
Board-designated endowment funds	14,807,360	-	14,807,360
	<u>\$ 14,807,360</u>	<u>\$ 455,932,282</u>	<u>\$ 470,739,642</u>

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Changes in endowment net assets for the years ended June 30, 2010 and 2009, were:

	<b>2010</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 14,807,360	\$ 455,932,282	\$ 470,739,642
Investment return			
Investment income	203,381	9,818,517	10,021,898
Net appreciation	-	60,337,323	60,337,323
Total investment return	203,381	70,155,840	70,359,221
Contributions	9,671	68,368,261	68,377,932
Appropriation of endowment assets for expenditure	-	(35,634,883)	(35,634,883)
Endowment net assets, end of year	<u>\$ 15,020,412</u>	<u>\$ 558,821,500</u>	<u>\$ 573,841,912</u>
	<b>2009</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 12,644,305	\$ 585,611,495	\$ 598,255,800
Investment return			
Investment income	186,181	16,289,912	16,476,093
Net appreciation (depreciation)	444,910	(120,998,798)	(120,553,888)
Total investment return	631,091	(104,708,886)	(104,077,795)
Contributions	1,531,964	22,370,105	23,902,069
Appropriation of endowment assets for expenditure	-	(47,340,432)	(47,340,432)
Endowment net assets, end of year	<u>\$ 14,807,360</u>	<u>\$ 455,932,282</u>	<u>\$ 470,739,642</u>

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Amounts of donor-restricted endowment funds classified as permanently restricted net assets at June 30, 2010 and 2009, consisted of \$558,821,500 and \$455,932,282 of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA.

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. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods as well as those of board-designated endowment funds.

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 return objectives within prudent risk constraints.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year 5% of its 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 this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3% annually. Actual returns in any given year may vary from this amount. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**Note 9: Operating Lease**

In the early 1980's, 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 10: Retirement Plan**

The Foundation has a defined contribution pension plan covering all eligible employees. The Board of Trustees has approved the Foundation's contributions to the plan, which is a percentage of annual salaries. Pension expense was \$204,749 and \$181,626 for 2010 and 2009, respectively.

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**Note 11: Fair Value of Assets and Liabilities**

Accounting Standards Codification Topic 820, *Fair Value Measurements* (Topic 820), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

***Investments***

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments include equity securities, mutual funds and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 investments include equity securities, corporate and other bonds, U.S. government securities, marketable alternative assets, inflation hedging and opportunistic and other investments. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy and include corporate and other bonds and marketable and nonmarketable alternative assets.

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The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2010:

	<b>Fair Value</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>2010</b>				
Equity securities	\$ 84,033,074	\$ 84,033,074	\$ -	\$ -
Corporate bonds	34,502,269	33,378,888	1,123,381	-
Mortgage backed securities	7,017,449	-	-	7,017,449
U.S. government securities	58,024,007	52,334,217	5,689,790	-
Mutual funds	128,241,506	128,241,506	-	-
Master trusts	208,579,548	208,579,548	-	-
Money market funds	38,008,287	38,008,287	-	-
Alternative investments	134,115,979	19,289,330	-	114,826,649
Other investments	332,278	-	332,278	-
<b>Total</b>	<b>\$ 692,854,397</b>	<b>\$ 563,864,850</b>	<b>\$ 7,145,449</b>	<b>\$ 121,844,098</b>
<b>2009</b>				
Equity securities	\$ 86,489,720	\$ 86,489,720	\$ -	\$ -
Corporate bonds	40,347,601	39,328,250	1,019,351	-
Mortgage backed securities	16,539,585	-	-	16,539,585
U.S. government securities	69,105,509	32,861,744	36,243,765	-
Mutual funds	135,225,883	135,225,883	-	-
Master trusts	160,605,536	160,605,536	-	-
Money market funds	39,032,092	39,032,092	-	-
Alternative investments	92,275,617	-	-	92,275,617
Other investments	3,633,661	1,834,865	1,798,796	-
<b>Total</b>	<b>\$ 643,255,204</b>	<b>\$ 495,378,090</b>	<b>\$ 39,061,912</b>	<b>\$ 108,815,202</b>



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The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	<b>Mortgage Backed Securities</b>	<b>Alternative Investments</b>	<b>Total</b>
Balance, July 1, 2008	\$ 11,213,452	\$104,617,070	\$115,830,522
Total realized and unrealized losses included in changes in net assets	(2,027,356)	(26,564,483)	(28,591,839)
Purchases	9,223,365	34,069,296	43,292,661
Sales	<u>(1,869,876)</u>	<u>(19,846,266)</u>	<u>(21,716,142)</u>
Balance, June 30, 2009	<u>16,539,585</u>	<u>92,275,617</u>	<u>108,815,202</u>
Total realized and unrealized gains (losses) included in changes in net assets	(9,933,559)	11,268,176	1,334,617
Purchases	44,608,114	57,370,918	101,979,032
Sales	(44,196,691)	(36,134,491)	(80,331,182)
Transfers out of Level 3	<u>-</u>	<u>(9,953,571)</u>	<u>(9,953,571)</u>
Balance, June 30, 2010	<u>\$ 7,017,449</u>	<u>\$114,826,649</u>	<u>\$121,844,098</u>
Total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	<u>\$ (9,933,559)</u>	<u>\$ 11,268,176</u>	<u>\$ 1,334,617</u>

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial position at amounts other than fair value.

***Cash and Cash Equivalents***

The carrying amount approximates fair value.

***Pledges Receivable***

Fair value is estimated at the present value of the future payments expected to be received, which approximates the carrying value.

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***Other***

Remaining financial instruments are carried at cost, which approximates fair value.

**Note 12: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Pledges Receivable***

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of 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, although the four largest donors with pledges receivable, net of allowance (undiscounted) accounted for 42% and 28% of total pledges receivable, net of allowance (undiscounted) as of June 30, 2010 and 2009, respectively.

***Investments***

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.

***Current Economic Conditions***

The current protracted economic decline continues to present not-for-profit foundations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Foundation.

Current economic conditions have made it difficult for many donors to continue to contribute to not-for-profit foundations. A significant decline in contribution revenue could have an adverse impact on the Foundation's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for contributions receivable that could negatively impact the Foundation's ability to maintain sufficient liquidity.