THE UNIVERSITY OF OKLAHOMA FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 and 2015

WITH

INDEPENDENT AUDITOR'S REPORT

HoganTaylor LLP
CPAs + ADVISORS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The University of Oklahoma Foundation, Inc. and its subsidiaries (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Oklahoma Foundation, Inc. and its subsidiaries as of June 30, 2016 and 2015, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hogan Taylor LLP

October 11, 2016

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THE UNIVERSITY OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 15,929,961	$ 14,625,240
Receivable for investment securities sold	43,323,576	4,137,756
Pledges receivable, net	71,183,453	70,928,776
Other receivables	1,211,528	1,390,599
Investments	1,506,777,543	1,489,581,066
Art collections	40,326,563	40,365,160
Leasehold improvements and equipment, net	2,124,575	1,938,657
Total assets	$ 1,680,877,199	$ 1,622,967,254
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 12,660,863	$ 18,161,253
Conditional gifts	-	1,580,334
Assets held for others	267,214,691	248,017,633
Charitable remainder trust obligations	1,050,087	1,173,974
Total liabilities	280,925,641	268,933,194
Net assets:		
Unrestricted	(4,493,031)	(5,307,819)
Temporarily restricted	426,175,306	371,169,248
Permanently restricted	978,269,283	988,172,631
Total net assets	1,399,951,558	1,354,034,060
Total liabilities and net assets	$ 1,680,877,199	$ 1,622,967,254

THE UNIVERSITY OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions	$ 26,735	$ 100,120,535	$ 25,900,960	$ 126,048,230
Investment income (loss):				
Interest and dividends	3,942,218	54,228	4,542,085	8,538,531
Royalties	260,568	74,984	1,827,581	2,163,133
Net realized and unrealized gains (losses) on investments	(1,307,216)	32,619,528	(13,363,817)	17,948,495
Total investment income (loss)	2,895,570	32,748,740	(6,994,151)	28,650,159
Other revenues	287,754	1,948,603	826,272	3,062,629
Endowment distributions	12,405,126	39,620,757	(52,025,883)	-
Reinvestment of endowment distributions and donor redesignations	(2,234,067)	(20,113,772)	22,347,839	-
Net assets released from restrictions	99,277,190	(99,318,805)	41,615	-
Total revenues	112,658,308	55,006,058	(9,903,348)	157,761,018
Expenses				
The University of Oklahoma:				
General university educational assistance	30,785,517	-	-	30,785,517
Salary supplements	23,932,503	-	-	23,932,503
Facilities and equipment	28,151,022	-	-	28,151,022
Student scholarships	21,794,345	-	-	21,794,345
Faculty awards	614,351	-	-	614,351
Operating expenses	6,565,782	-	-	6,565,782
Total expenses	111,843,520	-	-	111,843,520
Increase (decrease) in net assets	814,788	55,006,058	(9,903,348)	45,917,498
Net assets, beginning of year	(5,307,819)	371,169,248	988,172,631	1,354,034,060
Net assets, end of year	$ (4,493,031)	$ 426,175,306	$ 978,269,283	$ 1,399,951,558

See notes to consolidated financial statements.

THE UNIVERSITY OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions	$ -	$ 95,131,835	$ 54,616,373	$ 149,748,208
Investment income:				
Interest and dividends	4,910,524	25,735	4,314,719	9,250,978
Royalties	471,213	130,949	3,247,172	3,849,334
Net realized and unrealized gains (losses) on investments	(2,098,498)	10,164,448	46,745,639	54,811,589
Total investment income	3,283,239	10,321,132	54,307,530	67,911,901
Other revenues	69,493	1,106,884	1,927,561	3,103,938
Endowment distributions	11,912,306	35,681,043	(47,593,349)	-
Reinvestment of endowment distributions and donor redesignations	(1,862,825)	(12,153,439)	14,016,264	-
Net assets released from restrictions	82,616,340	(83,366,474)	750,134	-
Total revenues	96,018,553	46,720,981	78,024,513	220,764,047
Expenses				
The University of Oklahoma:				
General university educational assistance	24,920,834	-	-	24,920,834
Salary supplements	24,874,598	-	-	24,874,598
Facilities and equipment	18,605,521	-	-	18,605,521
Student scholarships	19,414,076	-	-	19,414,076
Faculty awards	373,972	-	-	373,972
Operating expenses	5,683,848	-	-	5,683,848
Total expenses	93,872,849	-	-	93,872,849
Increase in net assets	2,145,704	46,720,981	78,024,513	126,891,198
Net assets, beginning of year	(7,453,523)	324,448,267	910,148,118	1,227,142,862
Net assets, end of year	$ (5,307,819)	$ 371,169,248	$ 988,172,631	$ 1,354,034,060

See notes to consolidated financial statements.

THE UNIVERSITY OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Increase in net assets	$ 45,917,498	$ 126,891,198
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Contributions restricted for endowment	(48,254,298)	(68,638,137)
Endowment distributions	52,025,883	47,593,349
Endowment investment (income) loss	6,994,151	(54,307,530)
Benefit for unfulfilled pledges	(1,863,784)	(137,688)
Net realized and unrealized gains on nonendowment investments	(21,750,832)	(8,065,950)
Depreciation expense	130,768	147,445
Change in operating assets and liabilities:		
Pledges receivable	6,080,533	(5,316,744)
Other receivables	179,071	(116,443)
Accounts payable and accrued liabilities	(3,406,380)	7,465,084
Assets held for others	19,197,058	181,587,250
Charitable remainder trust obligations	(123,887)	(594,000)
Net cash provided by operating activities	55,125,781	226,507,834
Cash Flows from Investing Activities		
Purchase of investments	(403,362,129)	(360,546,692)
Proceeds from sale of investments	359,881,774	139,861,223
Endowment distributions	(52,025,883)	(47,593,349)
Capital expenditures	(316,686)	(66,363)
Net cash used in investing activities	(95,822,924)	(268,345,181)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for endowment	42,001,864	52,087,748
Net increase in cash and cash equivalents	1,304,721	10,250,401
Cash and cash equivalents, beginning of year	14,625,240	4,374,839
Cash and cash equivalents, end of year	$ 15,929,961	$ 14,625,240

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 of the Foundation include the following wholly owned subsidiaries:

- University North Park, LLC
- UNP Realty Investors, LLC
- Avilla Principis, LLC
- L.W. Cary Investors, LLC
- Hamm Family Diabetes Center, LLC
- University Amphora (Amphora), LLC
- Santa Chiara SRL (Santa Chiara)

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 (see Note 14).

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 consolidated 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

Cash and cash equivalents

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.

Investments

Investments in equity and 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, net of investment fees, 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 provide for the 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 net asset value (NAV) of the Consolidated Investment Fund and Expendable Investment Pool units held by other not-for-profit organizations (see Note 4 and Note 12 for fair value policy and measurements).

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 (Note 14) 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 consolidated financial statements.

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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New accounting pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent*), which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. ASU 2015-07 also limits certain disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. ASU 2015-07 is to be applied retrospectively, and for nonpublic filers is effective for years beginning after December 15, 2016, with early adoption permitted. The Foundation will implement ASU 2015-07, with full retrospective application as required by the guidance for the year ended June 30, 2017. The Foundation will be evaluating the impact this standard will have on its consolidated financial statements and related disclosures.

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

Subsequent events

Subsequent events have been evaluated through October 11, 2016, the date the consolidated 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 $1,514,330 and $3,381,969 as of June 30, 2016 and 2015, respectively.

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

	2016			
Year	Temporarily Restricted	Permanently Restricted	Total Discounted	Total Undiscounted
2017	$ 35,895,705	$ 21,442,061	$ 57,337,766	$ 57,921,306
2018	6,772,668	3,444,798	10,217,466	10,413,501
2019	5,219,278	1,143,971	6,363,249	6,540,823
2020	4,831,785	1,093,694	5,925,479	6,145,488
2021	3,099,545	739,241	3,838,786	4,007,664
Thereafter	2,044,729	30,149	2,074,878	2,243,172
	57,863,710	27,893,914	85,757,624	87,271,954
Less: allowance for doubtful accounts	7,894,490	6,679,681	14,574,171	14,574,171
Total pledges receivable, net	$ 49,969,220	$ 21,214,233	$ 71,183,453	$ 72,697,783

	2015			
Year	Temporarily Restricted	Permanently Restricted	Total Discounted	Total Undiscounted
2016	$ 27,322,745	$ 11,143,506	$ 38,466,251	$ 39,112,483
2017	14,617,742	4,125,603	18,743,345	19,378,411
2018	10,993,208	3,331,517	14,324,725	15,058,888
2019	4,272,632	2,275,377	6,548,009	6,999,249
2020	3,712,959	2,215,609	5,928,568	6,443,584
Thereafter	3,024,957	330,876	3,355,833	3,756,085
	63,944,243	23,422,488	87,366,731	90,748,700
Less: allowance for doubtful accounts	9,883,254	6,554,701	16,437,955	16,437,955
Total pledges receivable, net	$ 54,060,989	$ 16,867,787	$ 70,928,776	$ 74,310,745

Note 4 – Investments

Investments consisted of the following at June 30:

	2016	2015
Investments measured at fair value:		
Equity securities	$ 235,684,464	$ 253,217,699
U.S. government securities	147,676,185	137,170,536
Mutual funds	264,022,643	198,921,394
Master trusts	358,175,968	350,729,803
Money market funds	73,495,189	72,328,695
Alternative investments	395,292,267	459,267,123
	1,474,346,716	1,471,635,250
Investments measured at carrying value:		
Real estate	26,187,219	13,699,287
Other investments	6,243,608	4,246,529
	32,430,827	17,945,816
	$ 1,506,777,543	$ 1,489,581,066

The Foundation paid approximately $3.7 and $3.5 million in custodial and investment advisory fees during the years ended June 30, 2016 and 2015, respectively. These fees, as well as additional investment fees reported net of earnings to the Foundation, are netted against realized and unrealized gains (losses) on investments in the consolidated statements of activities for the years ended June 30, 2016 and 2015, respectively.

Pooled investments

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

> *Consolidated Investment Fund* – Investments in this pool consist primarily of domestic and international equity securities, U.S. government securities, derivative financial instruments and alternative holdings.
>
> *Expendable Investment Pools* – Investments in these pools primarily consist of liquid money market funds, mutual funds, equities and separate accounts holding U.S. government and corporate fixed income securities.

Ownership interests in each pool are unitized. The Foundation calculates the NAV 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 unit holders are transmitted at the NAV 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:

	2016	2015
Consolidated investment fund	$ 1,007,805,273	$ 1,071,411,737
Expendable investment pools	342,396,072	304,202,786
Nonpooled investments	156,576,198	113,966,543
	$ 1,506,777,543	$ 1,489,581,066

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 $1.00. 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 equity and 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:

	2016	2015
Computer equipment and software	$ 845,502	$ 782,052
Buildings and leasehold improvements	2,054,974	2,022,662
Other equipment	579,850	358,925
Furniture and fixtures	481,393	481,393
	3,961,719	3,645,032
Less accumulated depreciation and amortization	(1,837,144)	(1,706,375)
	$ 2,124,575	$ 1,938,657

Note 6 – Conditional Gifts

Certain endowed faculty position agreements with the Foundation include clawback provisions that relate to the occurrence of specified future and uncertain events. The total of such conditional gifts as of June 30, 2015, was $1,580,334. There were no conditional gifts and all clawback provisions were satisfied as of June 30, 2016. No refunds have been requested by donors.

Note 7 – Assets Held for Others

Pursuant to an investment agreement dated October 15, 2010, certain endowed assets of Presbyterian Health Foundation (PHF) were placed with the Foundation for a fee and invested in the Foundation's Consolidated Investment Fund (CIF). The PHF investment in the CIF is subject to the same investment management and distribution policies as the Foundation investments in the CIF. Investment performance results of the CIF are allocated to PHF on a pro rata basis based on the number of CIF units held by PHF. The initial term of the agreement ended 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 CIF units held by PHF 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.

Pursuant to an investment and administrative services agreement dated July 1, 2014, certain endowed and nonendowed assets of The Board of Regents of the University of Oklahoma (Board of Regents) were placed with the Foundation for a fee and invested in the Foundation's CIF and Expendable Investment Pool (EIP). The Board of Regents investment funds are subject to the same investment management and distribution policies as the Foundation investments. The initial term of the agreement ended June 30, 2016, with a provision to automatically renew annually thereafter. The Board of Regents is independent of the Foundation in all respects. The Board of Regents is not a subsidiary or affiliate of the Foundation and is not directly or indirectly controlled by the Foundation. Moreover, the assets are the exclusive property of the Board of Regents and do not belong to the Foundation. The Foundation does not have ownership of any of the financial and capital resources of the Board of Regents. The Board of Regents is entitled to make all decisions regarding the business and affairs of the Board of Regents. Neither the principal nor income generated by the net assets of the Board of Regents can be taken into consideration in determining the amount of net assets of the Foundation. The Board of Regents does not have an ownership interest, beneficial or outright, in, or any voting rights with respect to the Foundation.

Pursuant to an investment services agreement dated June 15, 2015, certain nonendowed assets of The University of Oklahoma Health Sciences Center (OUHSC) were placed with the Foundation for a fee and invested in the Foundation's EIP. The OUHSC investment in the EIP is subject to the same investment management and distribution policies as the Foundation investments. The initial term of the agreement ends June 30, 2017, with a provision to automatically renew annually thereafter. OUHSC is independent of the Foundation in all respects. OUHSC is not a subsidiary or affiliate of the Foundation and is not directly or indirectly controlled by the Foundation. Moreover, the EIP units held by OUHSC are the exclusive property of OUHSC and do not belong to the Foundation. The Foundation does not have ownership of any of the financial and capital resources of OUHSC. The University of Oklahoma's Board of Regents is entitled to make all decisions regarding the business and affairs of OUHSC. Neither the principal nor income generated by the net assets of OUHSC can be taken into consideration in determining the amount of net assets of the Foundation. OUHSC does not have an ownership interest, beneficial or outright, in, or any voting rights with respect to the Foundation.

Pursuant to an investment services agreement dated March 15, 2016, certain nonendowed assets of Oklahoma Health Sciences Facility, Inc. (OHSF) were placed with the Foundation for a fee and invested in the Foundation's EIP. The OHSF investment in the EIP is subject to the same investment management and distribution policies as the Foundation investments. The initial term of the agreement ends June 30, 2017, with a provision to automatically renew annually thereafter. OHSF is independent of the Foundation in all respects. OHSF is not a subsidiary or affiliate of the Foundation and is not directly or indirectly controlled by the Foundation. Moreover, the EIP units held by OHSF are the exclusive property of OHSF and do not belong to the Foundation. The Foundation does not have ownership of any of the financial and capital resources of OHSF. Neither the principal nor income generated by the net assets of OHSF can be taken into consideration in determining the amount of net assets of the Foundation. OHSF does not have an ownership interest, beneficial or outright, in, or any voting rights with respect to the Foundation.

Assets held for others were comprised of the following as of June 30:

	2016	2015
Board of Regents	$ 110,268,029	$ 131,007,457
OUHSC	97,338,565	51,171,870
PHF	58,808,097	65,838,306
OHSF	800,000	-
	$ 267,214,691	$ 248,017,633

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, 2016 and 2015.

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, which 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 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 provided 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. The present value of this profit interest, calculated by management, was $6,500,000 as of July 1, 2012, with annual payments made to the University over four years. As of June 30, 2016 and 2015, the Foundation had paid $6,500,000 and $4,500,000 respectively, to the University and the agreement has been satisfied

Note 9 – Endowment

The Foundation's endowment consists of approximately 3,100 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 fiscal 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. The distribution per unit in any single fiscal year shall not exceed the prior year's distribution by more than 5%. 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, and 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, 2016, the fair value of endowment investments for approximately 1,000 endowment funds were less than the value of the original gift by approximately $18,400,000. At June 30, 2015, there were approximately 600 endowment funds less than the original gift value by approximately $6,300,000. 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 endowment 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 30, 2016 and 2015, were $47,240,093 and $52,785,131, respectively.

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

	Board Designated	Donor Restricted	Total
2016:			
Endowment net assets, beginning of year	$ 18,017,518	$ 988,172,631	$ 1,006,190,149
Investment loss:			
Investment income	111,166	6,369,666	6,480,832
Net depreciation	(349,847)	(13,363,817)	(13,713,664)
Total investment loss	(238,681)	(6,994,151)	(7,232,832)
Contributions	5,500	26,768,847	26,774,347
Reinvestment of endowment distributions and donor redesignations	2,060,541	22,347,839	24,408,380
Distributions	(943,908)	(52,025,883)	(52,969,791)
Endowment net assets, end of year	$ 18,900,970	$ 978,269,283	$ 997,170,253

	Board Designated	Donor Restricted	Total
2015:			
Endowment net assets, beginning of year	$ 17,978,867	$ 910,148,118	$ 928,126,985
Investment return:			
Investment income	275,562	7,561,891	7,837,453
Net appreciation	551,405	46,745,639	47,297,044
Total investment return	826,967	54,307,530	55,134,497
Contributions	5,500	57,294,068	57,299,568
Reinvestment of endowment distributions and donor redesignations	-	14,016,264	14,016,264
Distributions	(793,816)	(47,593,349)	(48,387,165)
Endowment net assets, end of year	$ 18,017,518	$ 988,172,631	$ 1,006,190,149

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

	2016	2015
Pledges receivable	$ 21,214,233	$ 16,867,788
Investments	935,629,457	948,957,201
Art collections	40,326,563	40,365,160
	$ 997,170,253	$ 1,006,190,149

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 $1.00 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. In addition, the Foundation will match 100% of the employee's elective deferrals up to 3% of the employee's annual salary. Contribution expense was $340,085 and $341,547 for 2016 and 2015, 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:

	Fair Value	Level 1	Level 2	Level 3
2016:				
Equity securities	$ 235,684,464	$ 122,493,984	$ -	$ 113,190,480
Debt securities	147,676,185	147,676,185	-	-
Mutual funds	264,022,643	264,022,643	-	-
Master trusts	358,175,968	-	358,175,968	-
Money market funds	73,495,189	73,495,189	-	-
Alternative investments	395,292,267	-	-	395,292,267
Total	$ 1,474,346,716	$ 607,688,001	$ 358,175,968	$ 508,482,747

	Fair Value	Level 1	Level 2	Level 3
2015:				
Equity securities	$ 253,217,699	$ 171,626,403	$ -	$ 81,591,296
Debt securities	137,170,536	137,170,536	-	-
Mutual funds	198,921,394	198,921,394	-	-
Master trusts	350,729,803	-	350,729,803	-
Money market funds	72,328,695	72,328,695	-	-
Alternative investments	459,267,123	-	-	459,267,123
Total	$ 1,471,635,250	$ 580,047,028	$ 350,729,803	$ 540,858,419

There were no transfers into or out of Levels 1, 2 or 3 measurements for the years ended June 30, 2016 or 2015, respectively.

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, 2016 and 2015, using significant unobservable (Level 3) inputs:

	Closely Held Common Stock	Alternative Investments	Total
Balance at June 30, 2014	$ 72,383,584	$ 388,105,514	$ 460,489,098
Total realized and unrealized gains	10,207,762	52,179,336	62,387,098
Purchases	-	87,956,618	87,956,618
Sales	(1,000,050)	(68,974,345)	(69,974,395)
Balance at June 30, 2015	81,591,296	459,267,123	540,858,419
Total realized and unrealized gains (losses)	32,699,472	(56,390,821)	(23,691,349)
Purchases	-	105,738,463	105,738,463
Sales	(1,100,288)	(113,322,498)	(114,422,786)
Balance at June 30, 2016	$ 113,190,480	$ 395,292,267	$ 508,482,747

Master trusts

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

Closely held common stock

The closely held common stock consists of Class C nonvoting shares of an Oklahoma-based company (see Note 14). The fair value of the stock has been estimated using a weighting of various valuation criteria, which were utilized based on the importance or reliability of the criteria used to determine fair value. The primary criteria and respective weighting of the valuation method included: capitalization of cash flow - 30%; market value of invested capital to EBITDA - 25%; market value of invested capital to book value - 25%; and market value of invested capital to EBITDA and private transactions - 20%. These criteria are considered Level 3 inputs. The stock is adjusted to fair value annually based upon the impact that significant factors, events and assumptions have on fair value, including the company's improving or deteriorating operating performance, market outlook, financial condition and other relevant inputs. The company intends to purchase approximately $1,000,000 of stock from the Foundation annually.

Alternative investments

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

Alternative investments held at June 30 consist of the following:

	Cost	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
2016:					
Equity long/short hedge funds (a)	$ 156,777,703	$ 186,976,077	$ 15,000,000	Quarterly - 3 years	30 - 90 days
Real estate funds (b)	21,587,487	32,042,473	35,510,064	N/A	N/A
Private equity funds (c)	110,029,704	176,273,717	168,336,888	N/A	N/A
	$ 288,394,894	$ 395,292,267	$ 218,846,952		

	Cost	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
2015:					
Equity long/short hedge funds (a)	$ 221,514,686	$ 287,946,619	$ -	Quarterly - 3 years	30 - 90 days
Real estate funds (b)	13,692,835	21,199,723	37,616,133	N/A	N/A
Private equity funds (c)	63,803,699	150,120,781	145,567,061	N/A	N/A
	$ 299,011,220	$ 459,267,123	$ 183,183,194		

(a) The purpose of this asset class is to enhance portfolio diversification and reduce volatility of returns. 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, 2016, 71% of the funds in the hedge fund category can be redeemed in less than 12 months and 15% of the funds could not be redeemed within two years. Of that portion, approximately 5% 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 NAV 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. The general partners calculate NAV 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, 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 are at the discretion of the general partners. The fund managers or general partners calculate NAV 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 in the CIF is based on the NAV of the CIF, a Level 3 input, and the fair value of assets held for others in the EIP is based on the NAV of the EIP, a Level 2 input. The underlying investments of the CIF include significant amounts of Level 1, 2 and 3 inputs, and the underlying investments of the EIP include significant amounts of Level 1 and 2 inputs. The investment agreements related to the assets held for others include 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 29% and 39% of net pledges receivable, as of June 30, 2016 and 2015, respectively. Bank deposit balances typically exceed Federal Deposit Insurance Corporation 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 consolidated financial statements.

Note 14 – Foundation for Engineering

The Foundation for Engineering at the University of Oklahoma, Inc. (FEOU) is a supporting organization formed for charitable and educational purposes exclusively to support the University of Oklahoma Foundation benefitting the College of Engineering at the University of Oklahoma. This not-for-profit corporation was formed in 2011 based on a request from donors with the objective of providing resources to attract and retain faculty and students through scholarships and enhanced college resources. The FEOU has applied for and received tax-exempt status with the Internal Revenue Service. During 2012, FEOU received contributions of closely held stock of $68,902,380. Since the initial contribution, FEOU has sold $3,215,839 worth of stock and the fair market value of the stock increased by $47,503,939. The closely held stock is classified as a Level 3 investment as there is little or no market activity or other observable inputs for the stock.