THE UNIVERSITY OF OKLAHOMA FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 and 2018

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, 2019 and 2018, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Foundation adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. As a result, the Foundation changed its presentation of its net asset classes and expanded the footnote disclosures as required by the standard. Our opinion is not modified with respect to this matter.

Hogan Taylor LLP

Oklahoma City, Oklahoma
October 24, 2019

THE UNIVERSITY OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 10,382,364	$ 5,980,188
Receivable for investment securities sold	26,761	217,870
Pledges receivable, net	65,478,413	48,646,005
Other receivables	11,752,328	3,110,631
Investments	1,892,684,609	1,817,082,925
Art collections	38,826,563	40,326,563
Leasehold improvements and equipment, net	2,071,232	2,145,108
Total assets	$ 2,021,222,270	$ 1,917,509,290
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 17,301,697	$ 17,990,181
Assets held for others	374,423,432	359,615,060
Charitable remainder trust obligations	968,811	1,043,038
Total liabilities	392,693,940	378,648,279
Net assets:		
Without donor restrictions	10,368,136	2,291,435
With donor restrictions:		
Purpose restricted	393,150,494	380,167,620
Perpetual	1,225,009,700	1,156,401,956
Total net assets with donor restrictions	1,618,160,194	1,536,569,576
Total net assets	1,628,528,330	1,538,861,011
Total liabilities and net assets	$ 2,021,222,270	$ 1,917,509,290

THE UNIVERSITY OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions	$ 35,000	$ 140,084,718	$ 140,119,718
Investment income:			
Interest, dividends and royalties	3,747,923	16,161,050	19,908,973
Net realized and unrealized gains on investments, net	4,584,645	70,436,717	75,021,362
Total investment income	8,332,568	86,597,767	94,930,335
Other revenues	516,079	2,012,844	2,528,923
Endowment distributions	15,093,903	(15,093,903)	-
Reinvestment of endowment distributions and donor redesignations	(4,403,043)	4,403,043	-
Net assets released from restrictions	136,413,851	(136,413,851)	-
Total revenues	155,988,358	81,590,618	237,578,976
Expenses			
Program services:			
The University of Oklahoma:			
General University educational assistance	23,712,258	-	23,712,258
Salary supplements	45,099,760	-	45,099,760
Facilities and equipment	42,891,816	-	42,891,816
Student scholarships	25,381,694	-	25,381,694
Supporting services:			
Management and general	6,570,156	-	6,570,156
Fundraising	4,255,973	-	4,255,973
Total expenses	147,911,657	-	147,911,657
Increase in net assets	8,076,701	81,590,618	89,667,319
Net assets, beginning of year	2,291,435	1,536,569,576	1,538,861,011
Net assets, end of year	$ 10,368,136	$ 1,618,160,194	$ 1,628,528,330

THE UNIVERSITY OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions	$ 4,975	$ 134,056,750	$ 134,061,725
Investment income:			
Interest, dividends and royalties	4,071,190	11,591,626	15,662,816
Net realized and unrealized gains on investments, net	664,852	84,846,597	85,511,449
Total investment income	4,736,042	96,438,223	101,174,265
Other revenues	368,755	4,921,551	5,290,306
Endowment distributions	14,686,774	(14,686,774)	-
Reinvestment of endowment distributions and donor redesignations	(1,456,157)	1,456,157	-
Net assets released from restrictions	199,455,842	(199,455,842)	-
Total revenues	217,796,231	22,730,065	240,526,296
Expenses			
Program services:			
The University of Oklahoma:			
General University educational assistance	37,845,559	-	37,845,559
Salary supplements	41,638,747	-	41,638,747
Facilities and equipment	98,152,583	-	98,152,583
Student scholarships	25,524,587	-	25,524,587
Supporting services:			
Management and general	5,507,036	-	5,507,036
Fundraising	3,444,549	-	3,444,549
Total expenses	212,113,061	-	212,113,061
Increase in net assets	5,683,170	22,730,065	28,413,235
Net assets, beginning of year	(3,391,735)	1,513,839,511	1,510,447,776
Net assets, end of year	$ 2,291,435	$ 1,536,569,576	$ 1,538,861,011

THE UNIVERSITY OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2019

		Supporting Services		
	Program Services	Management and General	Fundraising	Total Expenses
Grants and other assistance to organizations	$ 39,925,947	$ -	$ -	$ 39,925,947
Salaries and benefits	45,099,760	4,397,416	3,008,079	52,505,255
Professional services	2,455,271	1,099,849	986,655	4,541,775
Information technology	251,878	274,528	78,276	604,682
Facilities and equipment	42,891,816	101,600	22	42,993,438
Office	507,303	364,857	7,515	879,675
Insurance	-	131,413	-	131,413
Travel	4,388,264	9,271	113,822	4,511,357
Dues and subscriptions	409,926	-	31,025	440,951
Events, conferences and meetings	767,213	49,784	19,361	836,358
Advertising and promotion	388,150	35,296	11,218	434,664
Depreciation	-	106,142	-	106,142
Total expenses	$ 137,085,528	$ 6,570,156	$ 4,255,973	$ 147,911,657

THE UNIVERSITY OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2018

		Supporting Services		
	Program Services	Management and General	Fundraising	Total Expenses
Grants and other assistance to organizations	$ 50,880,999	$ -	$ -	$ 50,880,999
Salaries and benefits	41,638,747	4,073,918	2,708,924	48,421,589
Professional services	3,279,009	563,269	240,015	4,082,293
Information technology	297,602	238,416	15,416	551,434
Facilities and equipment	98,152,583	96,034	-	98,248,617
Office	783,187	273,345	48,367	1,104,899
Insurance	-	124,351	-	124,351
Travel	5,030,438	1,410	153,210	5,185,058
Dues and subscriptions	457,090	-	24,927	482,017
Events, conferences and meetings	2,105,945	10,652	207,542	2,324,139
Advertising and promotion	535,876	23,344	46,148	605,368
Depreciation	-	102,297	-	102,297
Total expenses	$ 203,161,476	$ 5,507,036	$ 3,444,549	$ 212,113,061

See notes to consolidated financial statements.

THE UNIVERSITY OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Increase in net assets	$ 89,667,319	$ 28,413,235
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Contributions restricted for endowment	(51,333,775)	(31,234,042)
Endowment distributions	63,429,448	63,327,561
Endowment investment income	(80,243,997)	(109,971,432)
Benefit for unfulfilled pledges	(563,468)	(102,552)
Net realized and unrealized (gains) losses on nonendowment investments	(10,607,425)	12,911,028
Loss on deaccession of art collections	1,500,000	-
Depreciation expense	120,966	117,130
Change in operating assets and liabilities:		
Pledges receivable	(5,930,998)	6,414,945
Other receivables	(8,641,697)	(1,015,839)
Accounts payable and accrued liabilities	4,155,846	28,325
Assets held for others	14,808,372	67,528,639
Charitable remainder trust obligations	(74,227)	(117,758)
Net cash provided by operating activities	16,286,364	36,299,240
Cash Flows from Investing Activities		
Purchase of investments	(235,084,038)	(344,813,429)
Proceeds from sale of investments	245,680,555	341,242,005
Endowment distributions	(63,429,448)	(63,327,561)
Capital expenditures	(47,090)	(243,289)
Net cash used in investing activities	(52,880,021)	(67,142,274)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for endowment	40,995,833	31,442,539
Net increase in cash and cash equivalents	4,402,176	599,505
Cash and cash equivalents, beginning of year	5,980,188	5,380,683
Cash and cash equivalents, end of year	$ 10,382,364	$ 5,980,188

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 Foundation also acts as a custodian and investment manager of assets for certain charitable/tax exempt organizations so that they may participate in the Foundation's investment portfolio (see Note 7).

The consolidated financial statements (the financial statements) of the Foundation include the following wholly owned subsidiaries:

- University North Park, LLC
- UNP Realty Investors, LLC
- L.W. Cary Investors, LLC
- Hamm Family Diabetes Center, LLC

Also included in the accompanying financial statements are the accounts of Foundation for Engineering at the University of Oklahoma, Inc. (FEOU), a supporting organization of the Foundation. The by-laws of FEOU 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. 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 trustees of the Foundation are entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the University.

Distributions of amounts held in funds by the Foundation are subject to the approval of the Foundation's Board of Trustees (the Board). 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. Student awards are based on program guidelines established by the donors. Salary supplements are processed through the University’s payroll system. Upon receiving adequate documentation, the Foundation will reimburse the University for such expenditures.

Assets that the University places with the Foundation for investment, together with investment income, are held, administered and distributed to the University under the direction and supervision of the Foundation based upon University policies and instructions. See Note 7 regarding assets placed with the Foundation for investment under investment services agreements with The Board of Regents of the University of Oklahoma (Board of Regents) and with The University of Oklahoma Health Sciences Center (OUHSC). With the exception of assets that the University and others have placed with the

Foundation for investment (and the investment income from such assets), the assets held by the Foundation are the exclusive property of the Foundation.

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.

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. 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 interest, dividends, royalties, and other investment income, realized and unrealized gains and losses on investments carried at fair value, net of investment fees, direct internal investment expenses, 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.

Assets held for others

The Foundation recognizes a liability for the net asset value (NAV) of the Consolidated Investment Fund (CIF) and Expendable Investment Pool (EIP) units held for other not-for-profit organizations (see Note 7 along with Note 5 and Note 12 for the Foundation's fair value policy and measurements) as well as an alternative investment in a separate investment vehicle (see Note 7).

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.

Net assets

The Foundation classifies net assets, revenues, gains and losses on investments based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

> *Net assets without donor restrictions* – Net assets without donor restrictions are available for use at the discretion of the Foundation's Board for general operating purposes. From time-to-time the Board may designate a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion. See Note 9 for more information about Board-designated endowments.
>
> *Net assets with donor restrictions* – Net assets with donor restrictions consist of assets whose use is limited by donor-imposed restrictions. Some donor-imposed restrictions are perpetual in nature, where the donor stipulates that the resources be maintained in perpetuity and are subject to the fluctuation of investment returns and periodic allocations for spending as specified by donors, Foundation policy, or applicable law. These net assets with donor restrictions typically include a stipulation that assets be maintained permanently (perpetual in nature) while permitting the Foundation to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations, a Board-approved endowment distribution policy, or relevant state law. Other donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished or time restriction ends, the net assets are reclassified as net assets without donor restrictions and are reported in the consolidated statements of activities as net assets released from restrictions.

Net assets with donor restrictions consist of the following at June 30:

	2019	
	Purpose	Perpetual
The University of Oklahoma:		
General University educational assistance	$ 251,295,882	$ 300,703,349
Salary supplements	25,169,847	483,015,645
Facilities and equipment	94,368,721	46,272,391
Student scholarships	22,316,044	395,018,315
	$ 393,150,494	$ 1,225,009,700

	2018	
	Purpose	Perpetual
The University of Oklahoma:		
General University educational assistance	$ 253,593,763	$ 293,297,476
Salary supplements	24,790,821	461,872,226
Facilities and equipment	80,313,589	46,695,055
Student scholarships	21,469,447	354,537,199
	$ 380,167,620	$ 1,156,401,956

Functional allocation of expenses

The cost of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The statements of functional expenses present the natural classification of expenses by function. Indirect costs that benefit multiple functional areas are allocated to the various functional areas based on the estimated cost attributable to each function.

Income taxes

The Foundation and supporting organization (see Note 14) are not-for-profit 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. The Foundation has limited unrelated business activity, and therefore, no provision for income taxes is included in the accompanying 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of new accounting pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 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 standard are as follows: the standard (1) replaced the previous 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) expanded 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) required expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses; (4) required 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; and (5) required investment returns to be presented net of external and direct internal investment expenses. The Foundation adopted the provisions of this standard as of and for the year ended June 30, 2019, with retrospective application for the 2018 financial statements. As a result, the Foundation changed its presentation of its net asset classes and expanded the footnote disclosures required by the standard. The

Foundation elected to not disclose liquidity and availability information for 2018 as permitted under the standard in the year of adoption.

Accounting pronouncements not yet adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update provides guidance concerning the recognition and measurement of revenue from contracts with customers. Its objective is to increase the usefulness of information in the financial statements regarding the nature, timing and uncertainty of revenues. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. As deferred by ASU No. 2015-14, the standard is effective for the Foundation for the year ending June 30, 2020. The standard permits the use of either the retrospective or cumulative effect transition method. The Foundation is currently evaluating the impact the standard will have on its financial statements and related disclosures; however, the Foundation will apply the guidance using the cumulative effect transition method. The cumulative effect (if any) of applying the standard will be accounted for as an adjustment to the opening balance of net assets at the date of initial application.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall* (*Subtopic 825-10*): *Recognition and Measurement of Financial Assets and Financial Liabilities*. The standard applies to all entities that hold financial assets or owe financial liabilities. The most significant aspects of the standard are as follows: the standard (1) requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (2) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (3) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables); and (4) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The standard is effective for the Foundation for the year ending June 30, 2020, and early adoption is permitted. The Foundation is currently evaluating the impact the standard will have on its financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, at the commencement date, lessees will be required to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discount basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new guidance is not applicable for leases with a term of 12 months or less. Lessor accounting is largely unchanged. The standard is effective for the Foundation for the year ending June 30, 2021, and early adoption is permitted. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Foundation has not yet evaluated the impact the standard will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows* (*Topic 230*): *Classification of Certain Cash Receipts and Cash Payments*. The amendments in the update provide cash flow statement classification guidance for the following eight categories: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. The standard is effective for the Foundation for the year ending June 30, 2020, and early adoption is permitted. The Foundation is currently evaluating the impact the standard will have on its financial statements and related disclosures.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendment clarifies and improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. Specifically, the standard provides additional guidance to clarify contributions vs. exchange transactions and provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The requirements are effective for the Foundation for transactions in which the entity serves as a resource recipient for the year ending June 30, 2020. For transactions in which the Foundation serves as the resource provider, the requirements are effective for the year ending June 30, 2021, with early adoption permitted. The Foundation has not yet evaluated the impact the standard will have on its financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurement*. The following disclosure requirements were removed from Topic 820: (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (2) the policy for timing of transfers between levels; (3) the valuation processes for Level 3 fair value measurements; and (4) for nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The following disclosure requirements were modified in Topic 820: (1) in lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; (2) for investments in certain entities that calculate NAV, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and (3) the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The following disclosure requirements were added to Topic 820: (1) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The standard is effective for the Foundation for the year ending June 30, 2021, and early adoption is permitted. The Foundation has not yet evaluated the impact the standard will have on its financial statements and related disclosures.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform with the 2019 presentation. These reclassifications had no impact on the previously reported change in net assets.

Subsequent events

Subsequent events have been evaluated through October 24, 2019, the date the financial statements were available to be issued.

Note 3 – Liquidity and Availability of Financial Assets

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity, with the income generated from such endowments used to fund programs.

The Foundation funds its operations primarily through administrative fees charged to endowed and nonendowed funds. Annual operations are defined as activities occurring during the Foundation's fiscal year. General expenditures include administrative, general and fundraising expenses, and exclude program related expenditures. Other than the payment of administrative fees to the Foundation, income from endowments restricted by donors for specific purposes is not available for general expenditure.

Financial assets available for general expenditure, that is, without donor restrictions or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2019:

Cash and cash equivalents	$ 3,000,000
Appropriations from Board-designated endowment	2,436,000
Estimated administrative fees from restricted funds	16,450,000
	$ 21,886,000

Board-designated endowments of $25,640,054 at June 30, 2019, are subject to an annual distribution rate as described in Note 9. Although the Foundation does not intend to spend from this Board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriations), these amounts could also be made available if necessary and upon approval from the Board.

Additionally, as part of the Foundation's liquidity plan, the Foundation has both an unrestricted operating reserve fund and a building reserve fund. The operating reserve is intended to provide an internal source of funds for situations which may include, but are not limited to, a one-time unbudgeted expense, a sudden increase in overall expenses, or an unanticipated loss of a significant funding source. The target balance of the operating reserve is equal to 100% of the Foundation's normalized operating budget for any given fiscal year and is funded from surplus unrestricted operating funds. At June 30, 2019, the operating reserve had a balance of $9,583,262. The Board has also established a building reserve that is intended for building renovations and expansion. At June 30, 2019, the building reserve had a balance of $1,014,359. These two reserves, funded with cash and cash equivalents and investments, can be made available as necessary upon approval from the Board.

Note 4 – Pledges Receivable

Pledges receivable are recorded at present value based on the payment schedules indicated by the donors. Present value is calculated using a risk-free interest rate estimate 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 $2,864,291 and $3,096,002 as of June 30, 2019 and 2018, respectively.

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 has a policy to specifically reserve for 20% of outstanding pledge balances when pledge payments have not been received within 12 months. This reserve increases 20% for each year outstanding. Based on past experience with pledge collections, the Foundation also records an additional general reserve of 1% on all outstanding pledges not specifically reserved for. The Foundation's policy also includes periodic evaluation of credit losses 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 scheduled discounted and undiscounted payment amounts as of June 30, are as follows:

	2019	
Year	Discounted	Undiscounted
2020	$ 48,419,328	$ 49,271,509
2021	9,696,140	10,040,448
2022	7,125,933	7,508,843
2023	5,449,602	5,843,502
2024	4,633,569	5,055,931
Thereafter	3,764,857	4,233,487
	79,089,429	81,953,720
Less: allowance for doubtful accounts	13,611,016	13,611,016
Total pledges receivable, net	$ 65,478,413	$ 68,342,704

	2018	
Year	Discounted	Undiscounted
2019	$ 42,152,481	$ 43,303,243
2020	8,832,678	9,321,526
2021	5,382,168	5,835,112
2022	2,815,899	3,136,218
2023	1,448,737	1,657,586
Thereafter	2,188,526	2,662,806
	62,820,489	65,916,491
Less: allowance for doubtful accounts	14,174,484	14,174,484
Total pledges receivable, net	$ 48,646,005	$ 51,742,007

Note 5 – Investments

Investments consist of the following at June 30:

	2019	2018
Investments measured at fair value:		
Equity securities	$ 151,981,874	$ 215,798,740
U.S. government securities	272,817,320	284,590,258
Mutual funds	260,267,402	264,326,948
Master trusts	302,176,788	334,716,462
Money market funds	116,648,318	37,481,891
Alternative investments	760,729,558	652,767,244
	1,864,621,260	1,789,681,543
Investments measured at carrying value:		
Real estate	25,047,558	24,422,103
Other investments	3,015,791	2,979,279
	28,063,349	27,401,382
	$ 1,892,684,609	$ 1,817,082,925

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, equity securities, mutual funds, money market funds, real property, notes receivable, and cash surrender value of life insurance policies.

Investments are included in the following pools at June 30:

	2019	2018
Consolidated investment fund (CIF)	$ 1,366,948,058	$ 1,299,810,773
Expendable investment pools (EIP)	246,351,741	242,754,757
Nonpooled investments	279,384,810	274,517,395
	$ 1,892,684,609	$ 1,817,082,925

<u>Carrying values of investments</u>

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 6 – Leasehold Improvements and Equipment

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

	2019	2018
Computer equipment and software	$ 912,019	$ 912,019
Buildings and leasehold improvements	2,281,237	2,220,924
Other equipment	595,712	608,935
Furniture and fixtures	481,393	481,393
	4,270,361	4,223,271
Accumulated depreciation and amortization	(2,199,129)	(2,078,163)
	$ 2,071,232	$ 2,145,108

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 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 were placed with the Foundation for a fee and invested in the Foundation's CIF and 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 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 ended June 30, 2017, with a provision to automatically renew annually thereafter. An amendment to the investment services agreement was entered into as of December 18, 2017, in which the majority of the OUHSC nonendowed assets were transferred from the EIP into a separate investment vehicle. On January 31, 2018, as directed by the Board of Regents, the Foundation entered into a $135,000,000 loan agreement with OU Medicine, Inc. (OU Medicine). OU Medicine, a not-for-profit corporation, is affiliated with the University and is not a subsidiary or affiliate of the Foundation. The investment by OUHSC in OU Medicine is being facilitated by the Foundation based on the amended investment services agreement. The Foundation will service the transactions as generated by the investment and update the separate investment vehicle fair value on an annual basis. The transactions consist of collection of various payments based on certain operating conditions being met by OU Medicine. The Foundation expects initial payments to commence December 15, 2019, and to continue annually through December 15, 2032. As stated within the loan agreement, the maximum annual payment from OU Medicine in a single period cannot exceed $17,500,000. This separate investment vehicle is included in the Foundation's nonpooled investments and is considered an alternative investment. The separate investment vehicle was measured at fair value using Level 3 inputs (see Note 12). 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 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 ended 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:

	2019	2018
Board of Regents	$ 157,498,633	$ 154,036,640
OUHSC	145,429,618	135,953,578
PHF	70,644,695	68,787,063
OHSF	850,486	837,779
	$ 374,423,432	$ 359,615,060

Note 8 – University Transactions

The Foundation makes certain purchases through the University, and the University provides certain services to the Foundation. The Foundation's management believes that 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 fundraising activities. Substantially all amounts due for such transactions were paid to the University prior to June 30, 2019 and 2018. Upon receiving adequate documentation, the Foundation will reimburse the University for certain expenditures in accordance with the fund purpose and based on program guidelines established by the donors.

Note 9 – Endowment

The Foundation's endowment consists of approximately 3,300 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. The Foundation has adopted investment and distribution policies for endowment assets that attempt to provide a predictable stream of funding for 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 endowment distribution 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. For the years ended June 30, 2019 and 2018, the Foundation established a distribution rate of 5% for beneficiaries and also distributed 1% annually into its operating fund for administrative expenses. The Board annually reviews the endowment distribution policy as it relates to maintaining the purchasing power of endowment assets. During the year ended June 30, 2019, the Board approved an amendment to the Foundation's endowment distribution policy to gradually reduce the distribution rate over the next two years. For the years ending June 30, 2020 and 2021, the distribution rate will decrease to 4.75% and 4.5%, respectively. However, 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 endowment distribution policy to allow the endowment to grow by inflation. Actual returns in any given year will vary from the amount distributed.

Due to the difference in the long-term rate of return objectives used in determining the endowment distribution policy and actual short-term investment returns, as of June 30, 2019, the fair value of endowment investments for approximately 400 endowment funds were less than the value of the original gift (underwater) by approximately $3,000,000. The total fair value and cost of endowed funds considered to be underwater were approximately $99,000,000 and $102,000,000, respectively. At June 30, 2018, there were approximately 400 endowment funds less than the original gift value by approximately $1,800,000. The total fair value and cost of endowed funds considered to be underwater were $79,900,000 and $81,700,000, respectively. 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 beneficiaries. For all other endowments, the Board 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 endowment distribution 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 perpetual endowment funds (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 endowment distribution 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 net assets without donor restrictions or net assets with donor restrictions depending on donor stipulations. The fair value of unexpended endowment distributions available for expenditure by endowment beneficiaries as of June 30, 2019 and 2018, were $57,431,898 and $55,163,117, respectively.

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

	Without Donor Restrictions	With Donor Restrictions	Total
2019:			
Endowment net assets, beginning of year	$ 21,011,161	$ 1,156,401,956	$ 1,177,413,117
Investment return:			
Investment income	169,964	15,830,060	16,000,024
Net appreciation	561,853	64,413,937	64,975,790
Total investment return	731,817	80,243,997	80,975,814
Contributions	5,000	45,932,447	45,937,447
Reinvestment of endowment distributions and donor redesignations	4,873,549	5,860,748	10,734,297
Distributions	(981,473)	(63,429,448)	(64,410,921)
Endowment net assets, end of year	$ 25,640,054	$ 1,225,009,700	$ 1,250,649,754
2018:			
Endowment net assets, beginning of year	$ 20,156,128	$ 1,077,695,585	$ 1,097,851,713
Investment return:			
Investment income	105,391	11,548,955	11,654,346
Net appreciation	1,717,106	98,422,477	100,139,583
Total investment return	1,822,497	109,971,432	111,793,929
Contributions	-	31,621,364	31,621,364
Reinvestment of endowment distributions and donor redesignations	-	441,136	441,136
Distributions	(967,464)	(63,327,561)	(64,295,025)
Endowment net assets, end of year	$ 21,011,161	$ 1,156,401,956	$ 1,177,413,117

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

	2019	2018
Pledges receivable	$ 22,839,619	$ 11,434,067
Investments	1,188,983,572	1,125,652,487
Art collections	38,826,563	40,326,563
	$ 1,250,649,754	$ 1,177,413,117

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 $481,531 and $435,377 for 2019 and 2018, respectively.

Note 12 – Fair Value Measurement

The FASB Accounting Standards Codification establishes 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.

Certain alternative investments are exempted from classification of the above fair value hierarchy and are reported using NAV (or its equivalent) as a practical expedient as determined by management. These investments are less liquid than the Foundation's other investments and are generally accessed via limited partnerships, limited liability corporations, and off-shore investment funds. There is generally no readily determinable fair value for alternative investments, though certain funds may invest in securities for which there is a public market. These investments are subject to varying degrees of liquidity restrictions. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

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 and cash equivalents, receivables, accounts payable and cash value of life insurance policies approximate fair value due to the short-term maturity of these instruments.

Investments

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

	Fair Value	Level 1	Level 2	Level 3
2019:				
Equity securities	$ 151,981,874	$ 45,690,024	$ -	$ 106,291,850
Debt securities	272,817,320	272,817,320	-	-
Mutual funds	260,267,402	260,267,402	-	-
Master trusts	302,176,788	-	302,176,788	-
Money market funds	116,648,318	116,648,318	-	-
Alternative investment	135,784,877	-	-	135,784,877
Total investments in the fair value hierarchy	1,239,676,579	$ 695,423,064	$ 302,176,788	$ 242,076,727
Investments measured at NAV (1)	624,944,681			
Total financial assets at fair value	$ 1,864,621,260			
2018:				
Equity securities	$ 215,798,740	$ 114,380,500	$ -	$ 101,418,240
Debt securities	284,590,258	284,590,258	-	-
Mutual funds	264,326,948	264,326,948	-	-
Master trusts	334,716,462	-	334,716,462	-
Money market funds	37,481,891	37,481,891	-	-
Alternative investment	135,784,877	-	-	135,784,877
Total investments in the fair value hierarchy	1,272,699,176	$ 700,779,597	$ 334,716,462	$ 237,203,117
Investments measured at NAV (1)	516,982,367			
Total financial assets at fair value	$ 1,789,681,543			

(1) In accordance with ASC 820-10, certain investments that are measured at fair value using NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

There were no transfers into or out of Levels 1, 2 or 3 measurements for the years ended June 30, 2019 or 2018, respectively. There have been no changes in the methodologies used at June 30, 2019 and 2018.

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, 2019 and 2018, using significant unobservable (Level 3) inputs:

	Closely Held Common Stock	Alternative Investment	Total
Balance at June 30, 2017	$ 116,448,000	$ -	$ 116,448,000
Total realized and unrealized gains (losses)	(14,431,360)	784,877	(13,646,483)
Purchases	-	135,000,000	135,000,000
Sales	(598,400)	-	(598,400)
Balance at June 30, 2018	101,418,240	135,784,877	237,203,117
Total realized and unrealized gains	5,553,729	-	5,553,729
Sales	(680,119)	-	(680,119)
Balance at June 30, 2019	$ 106,291,850	$ 135,784,877	$ 242,076,727

Closely held common stock

The closely held common stock consist of Class C nonvoting shares of an Oklahoma-based company (see Note 14). The fair value of the stock has been estimated based on an independent third-party appraisal. The investment was measured at fair value using primarily a market approach, and several 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 investment

The fair value of the separate investment vehicle (see Note 7) has been estimated based on an independent third-party appraisal. The investment was measured at fair value using Level 3 inputs.

Master trusts

This class includes limited partnerships, trusts and master limited partnerships, which invest in a variety of areas including foreign investments and emerging markets.

Investments measured at NAV

The following table summarizes investments in certain entities that calculate NAV per share and for which there is not a readily determinable fair value with related unfunded commitments and redemption restrictions by each category as follows:

	Fair Value, June 30		Unfunded Commitments, June 30		Redemption	Redemption
	2019	2018	2019	2018	Frequency	Notice Period
Equity long/short hedge funds (a)	$ 263,398,633	$ 206,134,685	$ -	$ -	Quarterly - 3 years	30 - 90 days
Real estate funds (b)	36,652,270	40,166,625	19,111,838	19,520,850	N/A	N/A
Private equity funds (c)	324,893,778	270,681,057	169,637,029	183,050,013	N/A	N/A
	$ 624,944,681	$ 516,982,367	$ 188,748,867	$ 202,570,863		

(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, 2019, 78% of the funds in the hedge fund category can be redeemed in less than 12 months and 10% of the funds could not be redeemed within two years. Of that portion, approximately 3% 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.

Note 13 – Significant Estimates and Concentrations

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of cash and cash equivalents, 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 two and three largest donors with pledges receivable, net of allowance, accounted for 33% and 20% of net pledges receivable, as of June 30, 2019 and 2018, respectively. Bank deposit balances typically exceed Federal Deposit Insurance Corporation insurance limits. To date, the Foundation has not experienced any losses on these accounts.

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.

Note 14 – Foundation for Engineering

FEOU is a supporting organization formed for charitable and educational purposes exclusively to support the Foundation benefitting the College of Engineering at the University. 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. 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 $5,221,788 worth of stock and the fair market value of the stock increased by $42,611,258. 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.