



CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011 and 2010

WITH

INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of The University of Oklahoma Foundation (the Foundation) as of June 30, 2011, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Foundation for the year ended June 30, 2010, were audited by other auditors whose report, dated September 9, 2010, expressed an unqualified opinion on these statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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



October 24, 2011

THE UNIVERSITY OF OKLAHOMA FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	\$ 8,137,049	\$ 3,079,407
Pledges receivable, net	54,226,470	55,710,228
Other receivables	2,163,054	1,765,538
Investments	935,621,887	710,962,464
Art collections	38,809,416	32,006,301
Leasehold improvements and equipment, net	2,290,814	2,395,581
	\$ 1,041,248,690	\$ 805,919,519
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 7,513,226	\$ 8,359,286
Conditional gifts	21,580,334	45,875,433
Assets held for others	66,027,740	-
Charitable remainder trust obligations	4,194,443	2,854,556
	99,315,743	57,089,275
Net assets:		
Unrestricted	(21,320,814)	(31,556,733)
Temporarily restricted	223,687,781	218,326,859
Permanently restricted	739,565,980	562,060,118
	941,932,947	748,830,244
Total net assets	941,932,947	748,830,244
Total liabilities and net assets	\$ 1,041,248,690	\$ 805,919,519

THE UNIVERSITY OF OKLAHOMA FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2011

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

THE UNIVERSITY OF OKLAHOMA FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Contributions	\$ 107,765	\$ 58,824,832	\$ 65,541,986	\$ 124,474,583
Investment income:				
Interest, dividends and rent	5,504,679	305,378	8,546,055	14,356,112
Royalties	186,763	29,044	1,534,558	1,750,365
Net realized and unrealized gains (losses) on investments	5,958,384	(198,761)	56,576,418	62,336,041
Total investment income	11,649,826	135,661	66,657,031	78,442,518
Other revenues	(283,991)	4,234,013	213,726	4,163,748
Endowment distributions	6,600,650	29,382,211	(35,982,861)	-
Reinvestment of endowment distributions and donor redesignations	2,273,740	(5,782,187)	3,508,447	-
Net assets released from restrictions	115,773,519	(112,085,641)	(3,687,878)	-
Total revenues	136,121,509	(25,291,111)	96,250,451	207,080,849
Expenses				
The University of Oklahoma:				
General university educational assistance	21,250,143	-	-	21,250,143
Salary supplements	21,644,682	-	-	21,644,682
Facilities and equipment	48,630,737	-	-	48,630,737
Student awards	25,740,403	-	-	25,740,403
Faculty awards	601,376	-	-	601,376
Operating expenses	5,424,832	-	-	5,424,832
Investment fees	4,299,586	-	-	4,299,586
Total expenses	127,591,759	-	-	127,591,759
Increase (decrease) in net assets	8,529,750	(25,291,111)	96,250,451	79,489,090
Net assets, beginning of year	(40,086,483)	243,617,970	465,809,667	669,341,154
Net assets, end of year	\$ (31,556,733)	\$ 218,326,859	\$ 562,060,118	\$ 748,830,244

THE UNIVERSITY OF OKLAHOMA FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Increase in net assets	\$ 193,102,703	\$ 79,489,090
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Contributions restricted for endowment	(80,714,655)	(69,050,433)
Endowment distributions	33,603,924	35,982,861
Endowment investment income	(133,482,097)	(66,657,031)
Net realized and unrealized gains on nonendowment investments	(6,014,144)	(5,759,623)
Depreciation expense	234,258	956,541
Change in assets and liabilities:		
Pledges receivable	6,290,063	16,405,308
Other receivables	(397,516)	566,507
Accounts payable and accrued liabilities	(846,060)	(8,029,279)
Charitable remainder trust obligations	1,339,887	(341,663)
	13,116,363	(16,437,722)
Cash Flows from Investing Activities		
Purchase of investments	(249,685,517)	(118,558,285)
Proceeds from sale of investments	174,423,038	140,498,557
Endowment distributions	(33,603,924)	(35,982,861)
Capital expenditures	(129,491)	(1,467,081)
	(108,995,894)	(15,509,670)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for endowment	40,741,273	31,220,939
Proceeds from agency transactions	60,195,900	-
	100,937,173	31,220,939
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents	5,057,642	(726,453)
Cash and cash equivalents, beginning of year	3,079,407	3,805,860
Cash and cash equivalents, end of year	\$ 8,137,049	\$ 3,079,407

THE UNIVERSITY OF OKLAHOMA FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

Note 1 – Nature of Operations

The University of Oklahoma Foundation, Inc. (the Foundation) is a not-for-profit corporation organized and operated for the purpose of receiving and administering gifts for the benefit of The University of Oklahoma (the University). The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiaries: University North Park, LLC (North Park), a not-for-profit limited liability company that owns undeveloped real property; UNP Realty Investors, LLC (UNP Realty), a not-for-profit limited liability company that provides financing for activities related to North Park's investments in real property; Avilla Principis, LLC was formed to conduct certain real estate loan transactions; University Amphora, LLC (Amphora), a not-for-profit limited liability company that enters into real-estate agreements, and Santa Chiara SRL (Santa Chiara) a foreign, wholly owned subsidiary of Amphora that owns certain real estate.

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

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

Note 2 – Summary of Significant Accounting Policies

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. The resulting discounts are amortized and reported as contribution revenue.

Investments

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

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 if contributed) or current fair value.

Leasehold improvements and equipment

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

Conditional gifts

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

Assets held for others

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

Charitable remainder trusts

The Foundation receives gifts of the future interests in charitable remainder trusts. Under the related agreements, the donors retain the rights to periodic distributions from the trusts for specified terms. At the end of the trusts' terms, the assets of the trusts become the property of the Foundation. Charitable remainder

trust contributions are recorded as gifts in the year received. The contribution amounts recorded represent the difference between the fair market value of the assets donated and the present value of future expected distributions to the donors. Related liabilities for the present value of the future expected distributions to the donors are recorded as liabilities under charitable remainder trusts.

Temporarily and permanently restricted net assets

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

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

Income taxes

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

The accounting for income taxes may, at times, involve some degree of uncertainty, and as such, lead to uncertain tax positions. Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years prior to 2007.

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.

Subsequent events

Subsequent events have been evaluated through October 24, 2011, the date the financial statements were available to be issued.

Reclassifications

Reclassifications in the 2010 financial statements to conform to the 2011 presentation include the following:

- Art collections are presented separately in the consolidated statement of financial position rather than being included in investments.
- Contributions restricted for endowment are reported as cash flows from financing activities rather than operating activities in the consolidated statement of cash flows.
- Endowment distributions are reported as operating cash inflows and investing cash outflows in the consolidated statement of cash flows.

These reclassifications had no impact on the previously reported change in net assets in the consolidated statement of activities or classification of the previously reported net assets in the consolidated statement of financial position.

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 \$2,463,362 and \$2,663,804 as of June 30, 2011 and 2010, respectively. The scheduled discounted and undiscounted payment amounts as of June 30 are as follows:

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

Year	2010			
	Temporarily Restricted	Permanently Restricted	Total Discounted	Total Undiscounted
2011	\$ 22,383,109	\$ 9,074,429	\$ 31,457,538	\$ 32,086,688
2012	15,074,010	4,941,666	20,015,676	20,824,309
2013	4,110,692	925,343	5,036,035	5,344,281
2014	1,817,521	542,357	2,359,878	2,554,408
2015	1,032,913	449,394	1,482,307	1,636,586
Thereafter	2,405,371	1,116,860	3,522,231	4,091,197
	46,823,616	17,050,049	63,873,665	66,537,469
Less: allowance for doubtful accounts	4,712,117	3,451,320	8,163,437	8,163,437
Total pledges receivable, net	\$ 42,111,499	\$ 13,598,729	\$ 55,710,228	\$ 58,374,032

Note 4 – Investments

Investments consisted of the following at June 30:

	2011	2010
Investments measured at fair value:		
Equity securities	\$ 120,993,693	\$ 84,033,074
Corporate bonds	1,972,944	34,502,269
Mortgaged backed securities	-	7,017,449
U.S. government securities	80,435,845	58,024,007
Mutual funds	161,336,673	128,241,506
Master trusts	289,256,655	208,579,548
Money market funds	28,569,399	38,008,287
Alternative investments	230,590,862	134,115,979
Other investments	-	332,278
	<hr/> 913,156,071	<hr/> 692,854,397
Investments measured at other carrying value:		
Real estate	19,530,008	16,006,163
Other investments	2,935,808	2,101,904
	<hr/> 22,465,816	<hr/> 18,108,067
	<hr/> <u>\$ 935,621,887</u>	<hr/> <u>\$ 710,962,464</u>

Pooled investments

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

Consolidated Investment Fund – Investments in this pool consist primarily of equity securities, U.S. government securities, corporate bonds and alternative holdings.

Expendable Investment Pool – Investments in this pool primarily include U.S. government securities and money market holdings.

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

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

Investments are included in the following pools at June 30:

	2011	2010
Consolidated Investment Fund	\$ 746,357,331	\$ 546,107,052
Expendable Investment Pool	132,225,657	132,435,045
Nonpooled investments	57,038,899	32,420,367
	<hr/> \$ 935,621,887	<hr/> \$ 710,962,464

Carrying values of investments

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

Note 5 – Leasehold Improvements and Equipment

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

	2011	2010
Computer equipment and software	\$ 630,346	\$ 622,938
Buildings and leasehold improvements	1,978,008	1,978,008
Other equipment	370,726	444,576
Furniture and fixtures	465,872	465,872
	3,444,952	3,511,394
Less accumulated depreciation and amortization	(1,154,138)	(1,115,813)
	<u>\$ 2,290,814</u>	<u>\$ 2,395,581</u>

Note 6 – Conditional Gifts

The 1988 Oklahoma Legislature approved funding to the Oklahoma State Regents for Higher Education for the purpose of establishing an endowment matching program to support the establishment of faculty chairs and professorships to improve the quality of instruction and research at colleges and universities of The Oklahoma State System of Higher Education. Some of the endowed faculty position agreements with the Foundation include a clawback provision that states that if the Public Matching Funds have not been placed in the State Regents' Endowment Account on or before three years after the date of the agreement, then the Donors shall have the right to request and receive a full refund of the amount contributed by the Donors to the Foundation Endowment Account. Other endowed faculty positions agreements with the Foundation include clawback provisions that are not related to the Public Matching Funds but to the occurrence of specified future and uncertain events. The total of such conditional gifts as of June 30, 2011 and 2010, is \$21,580,334 and \$45,875,433, respectively. No refunds have been requested by donors.

Note 7 – Assets Held for Others

The Foundation holds and invests certain endowment funds in trust on behalf of the Presbyterian Health Foundation (PHF). Pursuant to an investment agreement dated October 15, 2010, certain PHF endowment assets have been placed with the Foundation and invested in the Foundation's Consolidated Investment Fund. The PHF investment funds are subject to the same investment management and distribution policies as the Foundation investments. The initial term of the agreement ends October 31, 2012, with a provision to automatically renew annually thereafter. PHF is independent of the Foundation in all respects. PHF is not a

subsidiary or affiliate of the Foundation and is not directly or indirectly controlled by the Foundation. Moreover, the endowment assets are the exclusive property of PHF and do not belong to the Foundation. The Foundation does not have ownership of any of the financial and capital resources of PHF. The directors or trustees of PHF are entitled to make all decisions regarding the business and affairs of PHF. Neither the principal nor income generated by the net assets of PHF can be taken into consideration in determining the amount of net assets of the Foundation. PHF does not have an ownership interest, beneficial or outright, in, or any voting rights with respect to the Foundation.

Note 8 – Related Party Transactions

The Foundation makes certain purchases through the University, and the University provides certain services to the Foundation. The Foundation's management believes that the purchases made and services received were at prices and terms comparable to those that would be obtained in similar transactions with unrelated parties. In addition, the Foundation reimburses the University for various individuals' time and expenses relating to fund-raising activities. Substantially all amounts due for such transactions were paid to the University prior to June 30, 2011 and 2010.

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

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

In June 2009, UNP Realty entered into a Tax Increment Revenue Note with the Norman Tax Increment Finance Authority, a public trust created pursuant to the laws of the state of Oklahoma, to advance funds that will be used to pay certain project costs authorized by the Project Plan for the University North Park Project (the TIF Loan). The maximum amount to be advanced under the TIF Loan shall be \$14,560,000. As of June 30, 2011 and 2010, UNP Realty had advanced \$5,789,454 and \$4,480,813, respectively.

Note 9 – Endowment

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

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

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

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

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

Endowment fund distributions are placed in separate accounts maintained in short-term highly liquid investments and are distributed to beneficiaries as they are expended. Unexpended endowment fund distributions are reported as either unrestricted or temporarily restricted net assets depending on donor stipulations. The fair value of unexpended endowment distributions available for expenditure by endowment beneficiaries as of June 20, 2011 and 2010, are \$45,563,101 and \$42,646,872, respectively.

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

	2011		
	Board Designated	Donor Restricted	Total
Endowment net assets, beginning of year	\$ 13,007,437	\$ 562,060,118	\$ 575,067,555
Investment return:			
Investment income	549,100	11,153,201	11,702,301
Net appreciation	1,999,833	122,328,896	124,328,729
Total investment return	2,548,933	133,482,097	136,031,030
Contributions	2,500	71,620,575	71,623,075
Reinvestment of endowment distributions and donor redesignations	-	9,302,063	9,302,063
Distributions	-	(33,603,924)	(33,603,924)
Investment fees	-	(3,294,949)	(3,294,949)
Endowment net assets, end of year	\$ 15,558,870	\$ 739,565,980	\$ 755,124,850

	2010		
	Board Designated	Donor Restricted	Total
Endowment net assets, beginning of year	\$ 14,807,360	\$ 465,809,667	\$ 480,617,027
Investment return:			
Investment income	203,381	10,080,613	10,283,994
Net appreciation (depreciation)	(2,012,975)	56,576,418	54,563,443
Total investment return	(1,809,594)	66,657,031	64,847,437
Contributions	9,671	65,755,712	65,765,383
Reinvestment of endowment distributions and donor redesignations	-	3,508,447	3,508,447
Distributions	-	(35,982,861)	(35,982,861)
Investment fees	-	(3,687,878)	(3,687,878)
Endowment net assets, end of year	\$ 13,007,437	\$ 562,060,118	\$ 575,067,555

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

	2011	2010
Pledges receivable	\$ 18,405,034	\$ 13,598,729
Investments	697,910,400	529,462,525
Art collections	38,809,416	32,006,301
	\$ 755,124,850	\$ 575,067,555

Note 10 – Operating Lease

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

Note 11 – Retirement Plan

The Foundation has a defined contribution 401(k) plan covering all eligible employees. The Board of Trustees has approved the Foundation's contributions to the plan, which is a percentage of annual salaries. Contribution expense was \$237,607 and \$204,749 for 2011 and 2010, respectively.

Note 12 – Fair Value Measurement

The Financial Accounting Standards Board (FASB) 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.

Investments

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

June 30, 2011	Fair Value	Level 1	Level 2	Level 3
Equity securities:				
Consumer	\$ 43,882,296	\$ 43,882,296	\$ -	\$ -
Energy, materials and industrial	29,097,728	29,097,728	-	-
Technology	20,754,753	20,754,753	-	-
Healthcare	13,695,390	13,695,390	-	-
Other	13,563,526	13,563,526	-	-
Debt securities:				
Corporate bonds	1,972,944	1,972,944	-	-
U.S. government securities	80,435,845	80,435,845	-	-
Mutual funds:				
Fixed income	72,476,241	72,476,241	-	-
Large cap	66,929,540	66,929,540	-	-
International	11,697,676	11,697,676	-	-
Other	10,233,216	10,233,216	-	-
Master trusts:				
Fixed income	27,681,447	-	27,681,447	-
Large cap	30,219,609	-	30,219,609	-
International	200,972,725	-	200,972,725	-
Commodities	30,382,874	-	30,382,874	-
Money market funds	28,569,399	28,569,399	-	-
Alternative investments	230,590,862	-	-	230,590,862
Total	\$ 913,156,071	\$ 393,308,554	\$ 289,256,655	\$ 230,590,862
June 30, 2010	Fair Value	Level 1	Level 2	Level 3
Equity securities	\$ 84,033,074	\$ 84,033,074	\$ -	\$ -
Corporate bonds	34,502,269	33,378,888	1,123,381	-
Mortgage backed securities	7,017,449	-	-	7,017,449
U.S. government securities	58,024,007	52,334,217	5,689,790	-
Mutual funds	128,241,506	128,241,506	-	-
Master trusts	208,579,548	-	208,579,548	-
Money market funds	38,008,287	38,008,287	-	-
Alternative investments	134,115,979	-	-	134,115,979
Other investments	332,278	-	332,278	-
Total	\$ 692,854,397	\$ 335,995,972	\$ 215,724,997	\$ 141,133,428

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, 2011 and 2010, using significant unobservable (Level 3) inputs:

	Mortgage Backed Securities	Alternative Investments	Total
Balance at June 30, 2009	\$ 16,539,585	\$ 92,275,617	\$ 108,815,202
Total realized and unrealized gains (losses)	(9,933,559)	10,603,934	670,375
Purchases	44,608,114	67,370,919	111,979,033
Sales	(44,196,691)	(36,134,491)	(80,331,182)
Balance at June 30, 2010	7,017,449	134,115,979	141,133,428
Total realized and unrealized gains	-	23,078,993	23,078,993
Purchases	-	80,305,516	80,305,516
Sales	(7,017,449)	(6,909,626)	(13,927,075)
Balance at June 30, 2011	\$ -	\$ 230,590,862	\$ 230,590,862

Master trusts

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

Alternative investments

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

Alternative investments held at June 30 consist of the following:

2011	Cost	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity long/short hedge funds (a)	\$ 173,641,550	\$ 186,151,497	\$ -	Quarterly – 3 years	30 – 90 days
Real estate funds (b)	4,773,209	4,974,728	9,954,475	N/A	N/A
Private equity funds (c)	35,228,646	39,464,637	59,037,712	N/A	N/A
	<u>\$ 213,643,405</u>	<u>\$ 230,590,862</u>	<u>\$ 68,992,187</u>		
2010					
Equity long/short hedge funds (a)	\$ 109,523,793	\$ 107,322,062	\$ -	Quarterly – 3.25 years	45 – 100 days
Real estate funds (b)	1,200,000	1,200,000	1,800,000	N/A	N/A
Private equity funds (c)	29,414,810	25,593,917	40,711,481	N/A	N/A
	<u>\$ 140,138,603</u>	<u>\$ 134,115,979</u>	<u>\$ 42,511,481</u>		

- (a) This class, whose purpose in the overall portfolio is to provide diversification and reduce volatility of returns, includes investments in two broad types of hedge funds referred to as long/short equity funds and absolute

return funds. Hedge funds take both long and short positions, primarily in common stocks, credit securities and arbitrage trades. Management of the funds has the ability to shift investments among differing strategies according to their specific mandate. Some of the funds in this class are subject to lock-up periods where funds cannot be redeemed (without being subjected to a penalty) for as long as three years after the anniversary date of the investment. As of June 30, 2011, 76% of the funds in the hedge fund category can be redeemed in less than 12 months and only 11% of the funds could not be redeemed within two years. Of that portion, approximately 6% are in illiquid side pockets with an indefinite redemption period. Side pockets can only be redeemed upon realization of the underlying investment which is entirely at the discretion of the hedge fund manager. Management of the fund calculate net asset value based on the fair value of the underlying assets, which are primarily valued with Level 1 inputs.

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

Assets held for others

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

Other financial instruments

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

Note 13 – Significant Estimates and Concentrations

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of cash, pledges receivable and investments. Concentrations of credit risk with respect to pledges receivable are limited due to the large number of donors comprising the Foundation's donor base, although the donors with pledges receivable, net of allowance (undiscounted) greater than 10% of total pledges receivable, net of allowance (undiscounted) totaled 51% and 42% as of June 30, 2011 and 2010, respectively. At times, bank deposit balances may exceed FDIC insurance limits.

All investments are managed within established guidelines which limit the amounts which may be invested with one issuer. The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.