

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES**

**JUNE 30, 2012 and 2011**

**WITH**

**INDEPENDENT AUDITORS' REPORT**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
The University of Arkansas Foundation, Inc.

We have audited the accompanying consolidated statements of financial position of The University of Arkansas Foundation, Inc. and subsidiary as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 18 and 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*HoganTaylor LLP*

October 1, 2012

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**June 30, 2012 and 2011**

	2012	2011
<b>Assets</b>		
Contributions receivable, net	\$ 51,874,709	\$ 67,127,113
Interest receivable	1,853,869	2,881,560
Investments, at fair value	679,169,662	679,284,645
Cash value of life insurance	869,703	758,667
Land, buildings and equipment, net of accumulated depreciation of \$255,834 at 2012 and 2011	1,106,752	385,752
Total assets	\$ 734,874,695	\$ 750,437,737
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 4,460,326	\$ 6,188,369
Annuity obligations	14,803,420	15,966,475
Total liabilities	19,263,746	22,154,844
Net assets:		
Unrestricted	78,209,537	76,064,090
Temporarily restricted	142,134,510	159,825,370
Permanently restricted	495,266,902	492,393,433
Total net assets	715,610,949	728,282,893
Total liabilities and net assets	\$ 734,874,695	\$ 750,437,737

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 12,667,474	\$ 34,352,655	\$ 12,765,094	\$ 59,785,223
Interest and dividends	3,297,371	3,999,200	298,158	7,594,729
Net realized and unrealized gains on investments	9,975,125	14,001,076	(16,536,815)	7,439,386
Other	107,908	-	-	107,908
Net asset reclassification, including release from restrictions – satisfaction of restrictions	63,188,522	(70,065,719)	6,877,197	-
<b>Total revenues, gains and other support</b>	<b>89,236,400</b>	<b>(17,712,788)</b>	<b>3,403,634</b>	<b>74,927,246</b>
Expenses and losses:				
Program services:				
Construction	27,952,863	-	-	27,952,863
Research	14,270,671	-	-	14,270,671
Faculty/staff support	11,925,587	-	-	11,925,587
Scholarships and awards	8,607,496	-	-	8,607,496
Public/staff relations	2,918,349	-	-	2,918,349
Equipment	3,424,164	-	-	3,424,164
Sponsored programs	1,479,268	-	-	1,479,268
Other	14,008,979	-	-	14,008,979
<b>Total program services</b>	<b>84,587,377</b>	<b>-</b>	<b>-</b>	<b>84,587,377</b>
Supporting services:				
Management and general	423,644	-	-	423,644
Fundraising	1,701,044	-	-	1,701,044
Change in value of split-interest agreements	-	-	503,313	503,313
Provision for loss on uncollectible contributions	378,888	(21,928)	26,852	383,812
<b>Total supporting services</b>	<b>2,503,576</b>	<b>(21,928)</b>	<b>530,165</b>	<b>3,011,813</b>
<b>Total expenses and losses</b>	<b>87,090,953</b>	<b>(21,928)</b>	<b>530,165</b>	<b>87,599,190</b>
<b>Change in net assets</b>	<b>2,145,447</b>	<b>(17,690,860)</b>	<b>2,873,469</b>	<b>(12,671,944)</b>
<b>Net assets, beginning of year</b>	<b>76,064,090</b>	<b>159,825,370</b>	<b>492,393,433</b>	<b>728,282,893</b>
<b>Net assets, end of year</b>	<b>\$ 78,209,537</b>	<b>\$ 142,134,510</b>	<b>\$ 495,266,902</b>	<b>\$ 715,610,949</b>

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 9,185,884	\$ 38,951,573	\$ 20,789,614	\$ 68,927,071
Sponsored programs	485,618	45,296	-	530,914
Interest and dividends	3,165,583	4,878,108	330,759	8,374,450
Net realized and unrealized gains on investments	12,239,522	14,798,162	61,728,444	88,766,128
Other	161,172	29,671	-	190,843
Net assets released from restrictions – satisfaction of restrictions	48,045,047	(48,045,047)	-	-
<b>Total revenues, gains and other support</b>	<b>73,282,826</b>	<b>10,657,763</b>	<b>82,848,817</b>	<b>166,789,406</b>
Expenses and losses:				
Program services:				
Construction	12,990,496	-	-	12,990,496
Research	12,822,638	-	-	12,822,638
Faculty/staff support	10,052,485	-	-	10,052,485
Scholarships and awards	8,075,659	-	-	8,075,659
Public/staff relations	2,830,998	-	-	2,830,998
Equipment	3,436,365	-	-	3,436,365
Sponsored programs	1,352,198	-	-	1,352,198
Other	12,540,494	-	-	12,540,494
<b>Total program services</b>	<b>64,101,333</b>	<b>-</b>	<b>-</b>	<b>64,101,333</b>
Supporting services:				
Management and general	820,773	-	-	820,773
Fundraising	1,877,351	-	-	1,877,351
Change in value of split-interest agreements	-	-	405,500	405,500
Provision for loss on uncollectible contributions	45,028	2,321,508	104,410	2,470,946
<b>Total supporting services</b>	<b>2,743,152</b>	<b>2,321,508</b>	<b>509,910</b>	<b>5,574,570</b>
<b>Total expenses and losses</b>	<b>66,844,485</b>	<b>2,321,508</b>	<b>509,910</b>	<b>69,675,903</b>
<b>Change in net assets</b>	<b>6,438,341</b>	<b>8,336,255</b>	<b>82,338,907</b>	<b>97,113,503</b>
<b>Net assets, beginning of year</b>	<b>69,625,749</b>	<b>151,489,115</b>	<b>410,054,526</b>	<b>631,169,390</b>
<b>Net assets, end of year</b>	<b>\$ 76,064,090</b>	<b>\$ 159,825,370</b>	<b>\$ 492,393,433</b>	<b>\$ 728,282,893</b>

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended June 30, 2012 and 2011**

	2012	2011
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (12,671,944)	\$ 97,113,503
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in value of split-interest agreements	503,313	405,500
Net realized and unrealized gains on investments	(7,439,386)	(88,766,128)
Net loss on disposal of land, buildings and equipment	-	5,000
Net (decrease) increase in provision for loss on uncollectible contributions	(106,499)	243,000
Increase in cash value of life insurance	(111,036)	(114,699)
Non-cash gifts of land	(721,000)	-
Interest restricted for long-term investment	(391,376)	(388,215)
Contributions restricted for long-term investment	(15,271,770)	(23,550,129)
Change in assets and liabilities:		
Decrease (increase) in contributions receivable	15,358,903	11,239,498
Increase (decrease) in interest receivable	1,027,691	(804,983)
Decrease (increase) in accounts payable	(1,728,043)	507,070
	(21,551,147)	(4,110,583)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	229,191,791	203,862,774
Purchase of investments	(221,637,422)	(222,582,473)
	7,554,369	(18,719,699)
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for:		
Investment in endowment	15,271,770	23,550,129
Investment subject to annuity obligations	151,769	814,226
Other financing activities:		
Interest restricted for reinvestment	391,376	388,215
Payment of annuity obligations	(1,818,137)	(1,922,288)
	13,996,778	22,830,282
Net cash provided by financing activities	13,996,778	22,830,282
Net change in cash and cash at beginning and end of year	\$ -	\$ -

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

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

Nature of operations

The University of Arkansas Foundation, Inc. (the Foundation) administers and invests gifts and other amounts received directly or indirectly as a result of the individual fundraising activities of the various unincorporated development councils of the Foundation. The Foundation's principal activity is providing support to or for the benefit of The University of Arkansas.

The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, University of Arkansas Foundation Realty LLC (an Arkansas limited liability company) (the Subsidiary). The specific purposes of the Subsidiary are to receive, hold, manage and sell real estate of the Foundation and the Subsidiary, acquired by gift, devise or purchase, and to otherwise invest, reinvest, manage and operate the assets of the Subsidiary. The Subsidiary will exist for a period of 50 years ending December 31, 2050. All significant intercompany accounts and transactions have been eliminated in consolidation.

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.

Material estimates that are particularly susceptible to significant change relate to the allowance for doubtful contributions receivable. While the allowance is maintained at a level considered adequate to provide for potential losses based on management's evaluation of the contributions receivable, as well as on historical losses, changes in conditions may necessitate revision of these estimates in future years.

Unrestricted net assets

Gifts of cash and other assets that have neither permanent nor temporary donor imposed restrictions are recorded as unrestricted. Donor-restricted contributions, whose restrictions are met within the same year as received, are also reported as unrestricted contributions.

Temporarily restricted net assets

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.



### Permanently restricted net assets

Permanently restricted net assets are subject to donor imposed restrictions that stipulate resources be maintained permanently, but permit the Foundation to expend income and principal in accordance with the spending policy established by the Foundation's Board of Directors (see Note 11).

### Contributions

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received.

### Investments

Investments consist primarily of marketable securities. The Foundation accounts for investments under applicable guidance for certain investments held by not-for-profit organizations. This guidance requires that investments in equity securities with readily determinable fair values and all investments in debt securities be reported at fair value with gains and losses included in the Statements of Activities.

The financial statements include marketable and nonmarketable alternative investments valued at approximately \$215 million (30% of net assets) and \$211 million (29% of net assets) as of June 30, 2012 and 2011, respectively. The fair values of alternative investments have been prepared by management in the absence of readily determinable fair values. These values are based on information provided by the respective fund managers.

### Donated assets

Donated assets are carried at the lower of fair value on the date of receipt or year-end market value.

### Income taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is considered an organization that is not a private foundation.

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

### Reclassifications

Certain reclassifications have been made to prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on the Foundation's change in net assets.

### Subsequent events

Management has evaluated subsequent events through October 1, 2012, the date the financial statements were available to be issued.

## Note 2 – Contributions Receivable

Contributions receivable consist of the following unconditional promises to give at June 30:

	2012	2011
Due in less than one year	\$ 30,901,955	\$ 32,705,329
Due in one to five years	28,164,348	42,347,580
Due in more than five years	731,700	1,827,649
	59,798,003	76,880,558
Less: Allowance for doubtful accounts	(1,429,188)	(1,536,000)
Unamortized discount	(6,494,106)	(8,217,445)
	(7,923,294)	(9,753,445)
	<u>\$ 51,874,709</u>	<u>\$ 67,127,113</u>

## Note 3 – Investments

The fair values of the Foundation's portfolios of investments, consisting primarily of marketable securities as of June 30 are as follows:

	2012	2011
Equity securities	\$ 39,375,327	\$ 38,120,994
Fixed income securities	15,865,532	40,826,995
Commingled funds	296,053,280	304,657,934
Other partnerships	99,611,306	79,265,993
Marketable alternatives	113,398,432	103,747,498
Nonmarketable alternatives	101,564,172	107,489,229
Money market and short-term investments	13,301,613	5,176,002
	<u>\$ 679,169,662</u>	<u>\$ 679,284,645</u>

The Foundation paid approximately \$2.1 million in custodial and investment advisory fees during the years ended June 30, 2012 and 2011. These fees are netted against interest and dividend revenue in the Statements of Activities.

The Foundation invests in various investment securities, including marketable and nonmarketable alternatives, which are exposed to various risks, such as interest rate, credit and overall market volatility risks. Investments are made by investment managers engaged by the Foundation, and the investments are monitored by the Foundation staff and its outsourced chief investment officer. Although the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Foundation and its beneficiaries.

Due to market volatility, it is reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported in the Statements of Activities. Significant fluctuations in fair values could occur from year to year, and the amounts the Foundation will ultimately realize could differ materially.

#### Note 4 – Annuity Obligations

The Foundation has received gifts in return for lifetime annuities. The terms of these annuities vary depending upon the life expectancy of the recipients. The quarterly payments as of June 30, 2012 and 2011, were \$467,900 and \$460,400, respectively, including interest which ranges from 4% to 12%.

Aggregate annual maturities of annuity obligations at June 30, 2012, are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 1,251,359
2014	1,200,408
2015	1,163,036
2016	1,117,434
2017	1,048,769
Thereafter	9,022,414
	<u>\$ 14,803,420</u>

#### Note 5 – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2012</u>	<u>2011</u>
Construction	\$ 59,782,679	\$ 81,004,461
Faculty/staff support	15,329,003	15,275,877
Institutional support	24,061,393	23,171,555
Research	18,997,754	15,777,424
Scholarships and awards	20,712,640	19,632,989
Other	3,251,041	4,963,064
	<u>\$ 142,134,510</u>	<u>\$ 159,825,370</u>

#### Note 6 – Permanently Restricted Net Assets

Permanently restricted net assets are required to be invested in perpetuity. In accordance with donor stipulations, net appreciation in the value of endowed funds, less the amount equal to the spending rate as determined by the Board, is to be retained permanently. Permanently restricted net assets are designated for the following purposes at June 30:

	<u>2012</u>	<u>2011</u>
Construction	\$ 14,958,452	\$ 15,348,496
Faculty/staff support	160,785,357	162,110,123
Institutional support	115,388,333	115,221,701
Research	26,010,734	26,705,393
Scholarships and awards	156,086,691	154,275,777
Other	22,037,335	18,731,943
	<u>\$ 495,266,902</u>	<u>\$ 492,393,433</u>

## Note 7 – Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows for the years ended June 30:

	2012	2011
Construction	\$ 30,172,250	\$ 12,056,110
Scholarships and awards	8,147,583	7,180,583
Research	12,753,397	11,846,646
Faculty/staff support	6,886,218	6,928,649
Other	12,106,271	10,033,059
	<u>\$ 70,065,719</u>	<u>\$ 48,045,047</u>

## Note 8 – Pension Plan

The Foundation has a defined contribution (money-purchase) retirement plan covering substantially all employees. The Foundation's contributions to the plan are 5% of participants' salaries. In addition, the Foundation will match all contributions made by employees up to and including 5%. Contributions are limited to 10% of the total compensation paid to participants during the plan year. Participants' interests are immediately vested. Employer contributions to the plan were \$123,500 and \$102,900 in fiscal years 2012 and 2011, respectively.

## Note 9 – Financial Instruments

The following methods and assumptions were used by the Foundation in estimating the fair value of its financial instruments, all of which are reported at fair value:

### Interest receivable

For these short-term instruments, the carrying amount approximates fair value.

### Contributions receivable

The fair value is estimated by discounting the expected future cash flows using the risk-free interest rates applicable to the years in which the promises are received.

## Note 10 – Fair Value Measurements

The Financial Accounting Standards Board established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

An individual investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Foundation. The Foundation considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of that investment and does not necessarily correspond to the Foundation's perceived risk of that investment.

The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date. Publicly traded equity securities and mutual funds are the primary investments included in Level 1 and are valued at the individual security's closing market price.
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Observable inputs are those that reflect the assumptions market participants would use in pricing the asset developed based on market data obtained from independent sources. These types of sources would include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, models or other valuation methodologies. Level 2 investments include U.S. and international government debt securities valued at market corroborated prices and certain equity and fixed income investments in commingled investment vehicles reported at net asset value derived from the market prices of security holdings.
- Level 3 – Inputs that are unobservable. Unobservable inputs are those that reflect the Foundation's own assumptions about the assumptions that market participants would use in pricing the asset developed based on the best information available. These types of sources would include investment manager pricing for private equities, hedge funds and certain limited partnerships. Limited partner interests in private equity and other partnerships and hedge fund investments are included in Level 3 and are valued using the individual investment manager's reported estimates of fair value developed in accordance with reasonable valuation policies.

The inputs used in determining the fair value of the Foundation's annuity obligations are the annuity payout percentage, payment frequency, discount rate and life expectancy of the donor. Life expectancies are based upon mortality tables issued by IRS Publication No. 1457 and discount rates are the applicable federal rate, per Section 7520 of the Internal Revenue Code. The Foundation has classified annuity obligations in Level 3, given these unobservable inputs.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

There were no investment transfers due to changes in the observability of significant inputs between Level 1 and Level 2 assets during the years ended June 30, 2012 and 2011. The transfers into and out of Level 3 assets for the years ended June 30, 2012 and 2011, are outlined in the table that summarizes changes in fair value of the Foundation's Level 3 assets below.

The following tables set forth, by level, within the valuation hierarchy amounts recorded in the Foundation's financial statements at fair value as of June 30:

2012	Assets				Liabilities	
	Level 1	Level 2	Level 3	Total	Level 3	Total
<b>Equity Securities:</b>						
United States	\$ 28,679,430	\$ 12,946	\$ 307	\$ 28,692,683	\$ -	\$ -
International	3,093,972	-	2,875	3,096,847	-	-
REITs	7,585,797	-	-	7,585,797	-	-
<b>Fixed Income:</b>						
Government Debt Securities, U.S. (a)	699,539	14,258,998	-	14,958,537	-	-
Government Debt Securities, other	-	17,825	-	17,825	-	-
Other Debt Securities	856,010	33,160	-	889,170	-	-
<b>Commingled Funds:</b>						
U.S. Equity (c)	10,891,452	23,725,371	-	34,616,823	-	-
International Equity (d)	11,822,087	56,975,488	-	68,797,575	-	-
Commodities (e)	-	2,087,376	-	2,087,376	-	-
U.S. Government Bonds (f)	2,803,990	35,248,880	-	38,052,870	-	-
Corporate Bonds (g)	16,789,150	135,709,486	-	152,498,636	-	-
<b>Other Partnerships:</b>						
United States (h)	-	-	59,912,488	59,912,488	-	-
International (i)	-	-	39,698,818	39,698,818	-	-
Marketable alternatives (j)	-	-	101,564,172	101,564,172	-	-
Nonmarketable alternatives (k)	-	-	113,398,432	113,398,432	-	-
Money markets and short-term investments	13,301,420	193	-	13,301,613	-	-
Annuity obligations	-	-	-	-	14,803,420	14,803,420
<b>Total</b>	<b>\$ 96,522,847</b>	<b>\$ 268,069,723</b>	<b>\$ 314,577,092</b>	<b>\$ 679,169,662</b>	<b>\$ 14,803,420</b>	<b>\$ 14,803,420</b>

2011	Assets				Liabilities	
	Level 1	Level 2	Level 3	Total	Level 3	Total
<b>Equity Securities:</b>						
United States	\$ 27,537,121	\$ 13,636	\$ -	\$ 27,550,757	\$ -	\$ -
International	2,796,853	-	14,895	2,811,748	-	-
REITs	7,758,489	-	-	7,758,489	-	-
<b>Fixed Income:</b>						
Government Debt Securities, U.S. (a)	499,826	21,894,085	-	22,393,911	-	-
Government Debt Securities, International (b)	-	17,052,658	-	17,052,658	-	-
Other Debt Securities	1,380,426	-	-	1,380,426	-	-
<b>Commingled Funds:</b>						
U.S. Equity (c)	21,175,949	26,073,808	-	47,249,757	-	-
International Equity (d)	6,354,209	52,992,547	-	59,346,756	-	-
Commodities (e)	-	2,283,569	-	2,283,569	-	-
U.S. Government Bonds (f)	3,010,572	65,180,202	-	68,190,774	-	-
Corporate Bonds (g)	5,880,023	121,707,055	-	127,587,078	-	-
<b>Other Partnerships:</b>						
United States (h)	-	-	32,970,580	32,970,580	-	-
International (i)	-	-	46,295,413	46,295,413	-	-
Marketable alternatives (j)	-	-	103,747,498	103,747,498	-	-
Nonmarketable alternatives (k)	-	-	107,489,229	107,489,229	-	-
Money markets and short-term investments	5,176,002	-	-	5,176,002	-	-
Annuity obligations	-	-	-	-	15,966,475	15,966,475
<b>Total</b>	<b>\$ 81,569,470</b>	<b>\$ 307,197,560</b>	<b>\$ 290,517,615</b>	<b>\$ 679,284,645</b>	<b>\$ 15,966,475</b>	<b>\$ 15,966,475</b>

(a) This class includes U.S. Treasury securities managed to approximate the risk and return characteristics of the Barclays Capital U.S. Treasury OTR 2 Year Index.

(b) This class includes European government bonds managed to approximate the risk and return characteristics of the CG European Government World Bond Index.

- (c) This class includes mutual funds and collective trust funds invested in the common stocks of U.S. companies. The holdings are benchmarked to or are similar in composition to the S&P 100 Index and the Russell 2000 Index.
- (d) This class includes mutual funds and collective trust funds invested in the common stocks of international companies with approximately 50% in emerging markets funds and 43% in developed markets funds and 7% in globally focused natural resources. Benchmarks include the MSCI World ex U.S. Index, MSCI Japan Index, MSCI Emerging Markets Index, S&P Extended Frontier Markets Index and Lipper Natural Resources Index.
- (e) This class includes a collective trust fund that makes commodities related investments benchmarked to the S&P GS Commodity Index Equal Weighted.
- (f) This class includes investments in mutual funds and collective trust funds indexed to the Barclays Capital U.S. Treasury Inflation Protected Securities (TIPS) Index.
- (g) This class includes investments in mutual funds and collective trust funds indexed to the Barclays High Yield Composite Bond Index, U.S. Credit Index and Intermediate Credit Index.
- (h) This class includes investments in limited partnerships that invest primarily in U.S. common stocks and are benchmarked to the S&P 500. These partnerships may invest in securities outside the benchmark index, use futures and options, invest in private investments and engage in short-selling. Liquidity may be restricted through the use of lock-up periods and notice requirements.
- (i) This class includes investments in limited partnerships that invest primarily in international common stocks, including both developed and emerging markets and are benchmarked to the MSCI EAFE Index and the MSCI World Index. Withdrawals are subject to notice requirements and approximately 25% of assets are invested in partnerships with lock-up requirements.
- (j) This class includes investments through a limited partnership in multiple underlying hedge funds with the overall investment objective of achieving equity-like returns with minimal correlation to major market averages. The portfolio is diversified by investment strategy and by manager. Liquidity and lock-up periods will vary by individual fund.
- (k) This class includes investments through a limited partnership in multiple underlying private equity partnerships. The underlying investments are diversified by strategy, fund and vintage year.

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets and liabilities for the fiscal year ended June 30, 2012:

	Equity Securities	Other Partnerships U.S.	Other Partnerships International	Nonmarketable Alternatives	Marketable Alternatives	Total
Balance, July 1, 2011	\$ 14,895	\$ 32,970,580	\$ 46,295,413	\$ 107,489,229	\$ 103,747,498	\$ 290,517,615
Purchases	-	23,012,399	-	6,924,871	10,898,156	40,835,426
Sales	-	-	(2,726,681)	(3,292,151)	(12,317,187)	(18,336,019)
Transfer into (out) of Level 3	490	-	-	-	-	490
Investment income	-	-	521,947	-	-	521,947
Unrealized gain (loss)	(12,203)	3,929,509	(4,076,366)	2,276,483	(764,295)	1,353,128
Realized loss	-	-	(315,495)	-	-	(315,495)
Balance, June 30, 2012	\$ 3,182	\$ 59,912,488	\$ 39,698,818	\$ 113,398,432	\$ 101,564,172	\$ 314,577,092

	<u>Liabilities</u> <u>Annuity</u> <u>Obligations</u>
Balance, July 1, 2011	\$ 15,966,475
New annuity obligations	187,211
Payments to beneficiaries	(1,818,137)
Sales/liquidations	(170,673)
Adjustments	551,343
Investment income	85,303
Unrealized gain	(29,106)
Realized gain	31,004
Balance, June 30, 2012	<u>\$ 14,803,420</u>

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets and liabilities for the fiscal year ended June 30, 2011:

	<u>Assets</u>					<u>Government</u>	<u>Total</u>
	<u>Equity</u> <u>Securities</u>	<u>Other</u> <u>Partnerships</u> <u>U.S.</u>	<u>Other</u> <u>Partnerships</u> <u>International</u>	<u>Nonmarketable</u> <u>Alternatives</u>	<u>Marketable</u> <u>Alternatives</u>	<u>Debt</u> <u>Securities</u> <u>International</u>	
Balance, July 1, 2010	\$ -	\$ 24,104,566	\$ 32,547,255	\$ 82,807,976	\$ 85,157,280	\$ 108,304	\$ 224,725,381
Purchases	-	2,094,403	4,367,367	10,902,748	18,226,263	-	35,590,781
Sales	-	-	(90,267)	(5,087,848)	(13,989,476)	-	(19,167,591)
Transfer into (out) of Level 3	12,594	-	-	-	-	(108,304)	(95,710)
Investment income	-	-	495,105	-	-	-	495,105
Unrealized gain	2,301	6,771,611	8,422,565	18,866,353	14,353,431	-	48,416,261
Realized gain	-	-	553,388	-	-	-	553,388
Balance, June 30, 2011	<u>\$ 14,895</u>	<u>\$ 32,970,580</u>	<u>\$ 46,295,413</u>	<u>\$ 107,489,229</u>	<u>\$ 103,747,498</u>	<u>\$ -</u>	<u>\$ 290,517,615</u>

	<u>Liabilities</u> <u>Annuity</u> <u>Obligations</u>
Balance, July 1, 2010	\$ 16,669,037
New annuity obligations	525,563
Payments to beneficiaries	(1,922,640)
Sales/liquidations	(3,130,289)
Adjustments	405,500
Investment income	325,082
Unrealized gain	1,563,275
Realized gain	1,530,947
Balance, June 30, 2011	<u>\$ 15,966,475</u>

All net realized and unrealized gains (losses) in the tables above are reflected in the accompanying Statements of Activities. Net unrealized gains of approximately \$1,300,000 and \$50,000,000 relate to the Level 3 assets and liabilities held by the Foundation at June 30, 2012 and 2011, respectively.

#### **Note 11 – Endowment**

The Foundation's endowment consists of funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Directors of the Foundation (the Board) to function as endowments. As required by accounting principles generally accepted in the United



States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** – The Foundation interprets Arkansas Act 262, cited as the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), which was approved February 2009, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instruments at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard prudence prescribed in UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purpose of the Foundation and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Foundation
- 7) The investment policy of the Foundation

**Funds with Deficiencies** – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in permanently restricted net assets based upon donor stipulations. Deficiencies were \$136,187 and \$110,945 as of June 30, 2012 and 2011, respectively.

**Endowment Investment Policies** – The overall financial objectives of the Foundation are (1) to advance and support higher education, both current and future operations, for all units and activities of the University of Arkansas System, and (2) to enhance the purchasing power by generating an average annual real total return (net of investment management fees) in excess of the spending rate over the long-term with minimal return volatility. It is recognized that the real return objective may be difficult to attain in any specific time frame, but should be attainable on average over time. The returns are compared to appropriate composite benchmarks and/or endowment median.

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 capital appreciation (realized and unrealized) and current yield (interest and dividends). The endowment's investments are diversified across asset classes that balance the Foundation's need for liquidity, preservation of purchasing power and risk tolerance.

**Spending Policy** – The Board has approved a spending policy whereby funds are transferred quarterly from endowment to the appropriate temporarily restricted or unrestricted operating fund. The amount of funds transferred out of endowment is computed by applying the spending rate of 5% in 2012 and 2011 to the 36-month average market value as of the end of each quarter. This transfer is reflected on the Statement of Activities as an outflow of interest and dividends and net realized and unrealized gains on investments from the permanently restricted net asset classification.

Endowment net asset composition by type of fund as of June 30 are as follows:

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 9,546,719	\$ 469,043,131	\$ 478,589,850
Board-designated endowment funds	23,080,429	-	-	23,080,429
	<u>\$ 23,080,429</u>	<u>\$ 9,546,719</u>	<u>\$ 469,043,131</u>	<u>\$ 501,670,279</u>

  

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 5,929,591	\$ 7,167,139	\$ 461,451,054	\$ 474,547,784
Board-designated endowment funds	24,553,768	-	-	24,553,768
	<u>\$ 30,483,359</u>	<u>\$ 7,167,139</u>	<u>\$ 461,451,054</u>	<u>\$ 499,101,552</u>

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

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 30,483,359	\$ 7,167,139	\$ 461,451,054	\$ 499,101,552
Investment return:				
Interest and dividends	184,818	51,058	2,841,826	3,077,702
Net realized and unrealized gains on long term investments	206,870	134,920	4,057,110	4,398,900
Total investment return	391,688	185,978	6,898,936	7,476,602
Contributions	139,458	2,385,880	12,746,431	15,271,769
Appropriation of endowment assets for expenditure	(1,056,879)	(192,278)	(18,930,487)	(20,179,644)
Reclassifications	(6,877,197)	-	6,877,197	-
Endowment net assets, end of year	<u>\$ 23,080,429</u>	<u>\$ 9,546,719</u>	<u>\$ 469,043,131</u>	<u>\$ 501,670,279</u>

  

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 26,500,623	\$ 5,116,504	\$ 383,728,128	\$ 415,345,255
Investment return:				
Interest and dividends	266,281	364,914	3,444,553	4,075,748
Net realized and unrealized gains on long term investments	4,799,798	1,037,076	71,437,922	77,274,796
Total investment return	5,066,079	1,401,990	74,882,475	81,350,544
Contributions	64,453	1,150,495	22,335,180	23,550,128
Appropriation of endowment assets for expenditure	(1,147,796)	(501,850)	(19,494,729)	(21,144,375)
Endowment net assets, end of year	<u>\$ 30,483,359</u>	<u>\$ 7,167,139</u>	<u>\$ 461,451,054</u>	<u>\$ 499,101,552</u>

## Note 12 – Significant Concentrations

Five pledges approximate 50% and 62% of total contributions receivable at June 30, 2012 and 2011, respectively.

**SUPPLEMENTAL SCHEDULES**

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**SCHEDULE OF ACTIVITIES BY DEVELOPMENT COUNCIL**

**Year ended June 30, 2012**

	System	Fayetteville	Agriculture	Little Rock	Medical Sciences	Monticello	Pine Bluff	Arkansas Cancer Research Center	Batesville	Total
Revenues, gains and other support:										
Contributions	\$ 464,938	\$ 24,782,100	\$ 3,109,512	\$ 6,341,151	\$ 13,042,172	\$ 547,521	\$ 739,196	\$ 10,164,009	\$ 594,624	\$ 59,785,223
Interest and dividends	606,730	3,299,369	306,288	621,972	2,167,173	126,962	58,266	401,272	6,697	7,594,729
Net realized and unrealized gains on investments	989,683	3,338,767	315,321	533,630	1,715,463	86,568	59,143	377,043	23,768	7,439,386
Other	-	-	-	74,203	930	30,725	-	2,050	-	107,908
<b>Total revenues, gains and other support</b>	<b>2,061,351</b>	<b>31,420,236</b>	<b>3,731,121</b>	<b>7,570,956</b>	<b>16,925,738</b>	<b>791,776</b>	<b>856,605</b>	<b>10,944,374</b>	<b>625,089</b>	<b>74,927,246</b>
Expenses and losses:										
Program services:										
Construction	63,036	13,111,364	150,995	223,262	13,884,858	102,282	(1,819)	418,885	-	27,952,863
Research	-	7,403,056	1,264,511	4,543	1,682,874	-	-	3,915,687	-	14,270,671
Faculty/staff support	2,570,313	4,645,775	276,577	607,977	3,324,282	91,175	55,056	353,933	499	11,925,587
Scholarships and awards	86,520	5,710,943	208,599	1,292,422	548,740	378,238	350,734	1,702	29,598	8,607,496
Public/staff relations	156,736	554,592	609,515	370,953	984,862	29,303	44,993	160,860	6,535	2,918,349
Equipment	106,991	711,516	225,496	217,371	1,143,993	126,307	13,226	878,431	833	3,424,164
Sponsored programs	83,779	294,092	599,501	85,919	179,069	8,081	39,005	173,444	16,378	1,479,268
Other	358,184	8,692,383	584,075	2,409,022	1,245,137	128,975	99,917	489,088	2,198	14,008,979
<b>Total program services</b>	<b>3,425,559</b>	<b>41,123,721</b>	<b>3,919,269</b>	<b>5,211,469</b>	<b>22,993,815</b>	<b>864,361</b>	<b>601,112</b>	<b>6,392,030</b>	<b>56,041</b>	<b>84,587,377</b>
Supporting services:										
Management and general	2,564	159,881	61,364	39,641	115,515	15,028	12,495	17,156	-	423,644
Fundraising	20,747	813,076	34,768	126,488	209,476	6,988	43,718	429,905	15,878	1,701,044
Change in value of split-interest agreements	-	413,154	1,725	27,622	98,195	(1,154)	139	(36,368)	-	503,313
Provision for loss on uncollectible pledges	-	10,648	-	58,900	21,764	-	-	292,500	-	383,812
<b>Total supporting services</b>	<b>23,311</b>	<b>1,396,759</b>	<b>97,857</b>	<b>252,651</b>	<b>444,950</b>	<b>20,862</b>	<b>56,352</b>	<b>703,193</b>	<b>15,878</b>	<b>3,011,813</b>
<b>Total expenses and losses</b>	<b>3,448,870</b>	<b>42,520,480</b>	<b>4,017,126</b>	<b>5,464,120</b>	<b>23,438,765</b>	<b>885,223</b>	<b>657,464</b>	<b>7,095,223</b>	<b>71,919</b>	<b>87,599,190</b>
Change in net assets	(1,387,519)	(11,100,244)	(286,005)	2,106,836	(6,513,027)	(93,447)	199,141	3,849,151	553,170	(12,671,944)
Net assets, beginning of year	10,994,160	352,050,822	22,397,131	60,306,733	222,878,875	13,329,788	5,357,728	40,542,834	424,822	728,282,893
Net assets, end of year	\$ 9,606,641	\$ 340,950,578	\$ 22,111,126	\$ 62,413,569	\$ 216,365,848	\$ 13,236,341	\$ 5,556,869	\$ 44,391,985	\$ 977,992	\$ 715,610,949

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**SCHEDULE OF ACTIVITIES BY DEVELOPMENT COUNCIL**

**Year ended June 30, 2011**

	System	Fayetteville	Agriculture	Little Rock	Medical Sciences	Monticello	Pine Bluff	Arkansas Cancer Research Center	Batesville	Total
Revenues, gains and other support:										
Contributions	\$ 698,271	\$ 37,862,653	\$ 2,919,585	\$ 4,905,794	\$ 15,545,228	\$ 782,412	\$ 732,922	\$ 5,382,831	\$ 97,375	\$ 68,927,071
Sponsored programs	505	-	485,572	20,127	13,250	11,245	215	-	-	530,914
Interest and dividends	542,408	3,714,598	345,634	678,441	2,409,545	144,729	66,429	465,785	6,881	8,374,450
Net realized and unrealized gains on investments	3,403,960	48,995,254	2,046,502	6,483,129	22,235,665	1,721,635	622,593	3,199,011	58,379	88,766,128
Other	-	-	12,273	126,784	17,180	30,256	-	4,350	-	190,843
<b>Total revenues, gains and other support</b>	<b>4,645,144</b>	<b>90,572,505</b>	<b>5,809,566</b>	<b>12,214,275</b>	<b>40,220,868</b>	<b>2,690,277</b>	<b>1,422,159</b>	<b>9,051,977</b>	<b>162,635</b>	<b>166,789,406</b>
Expenses and losses:										
Program services:										
Construction	-	664,117	140,748	226,586	10,285,651	85,905	128,754	1,458,735	-	12,990,496
Research	-	6,087,643	1,329,939	-	1,828,192	-	-	3,576,864	-	12,822,638
Faculty/staff support	550,559	4,650,266	255,533	1,067,453	3,306,996	86,002	67,100	67,098	1,478	10,052,485
Scholarships and awards	90,318	5,475,633	186,200	822,843	650,420	336,125	485,559	-	28,561	8,075,659
Public/staff relations	185,124	590,831	521,117	351,729	898,097	40,762	47,259	185,238	10,841	2,830,998
Equipment	111,405	696,906	356,655	164,587	1,295,297	16,689	42,521	620,138	132,167	3,436,365
Sponsored programs	50,540	293,918	659,796	47,681	164,935	14,466	11,765	108,026	1,071	1,352,198
Other	555,878	6,263,209	1,071,038	1,731,068	1,981,580	79,987	108,376	747,904	1,454	12,540,494
<b>Total program services</b>	<b>1,543,824</b>	<b>24,722,523</b>	<b>4,521,026</b>	<b>4,411,947</b>	<b>20,411,168</b>	<b>659,936</b>	<b>891,334</b>	<b>6,764,003</b>	<b>175,572</b>	<b>64,101,333</b>
Supporting services:										
Management and general	126,456	309,135	23,018	10,256	334,920	10,159	2,381	4,448	-	820,773
Fundraising	33,592	1,125,776	29,531	22,898	260,710	12,697	57,679	309,890	24,578	1,877,351
Change in value of split-interest agreements	-	373,663	1,725	27,622	114,876	(19,636)	(1,032)	(91,718)	-	405,500
Provision for loss on uncollectible pledges	-	2,299,714	11,500	67,132	51,600	-	-	41,000	-	2,470,946
<b>Total supporting services</b>	<b>160,048</b>	<b>4,108,288</b>	<b>65,774</b>	<b>127,908</b>	<b>762,106</b>	<b>3,220</b>	<b>59,028</b>	<b>263,620</b>	<b>24,578</b>	<b>5,574,570</b>
<b>Total expenses and losses</b>	<b>1,703,872</b>	<b>28,830,811</b>	<b>4,586,800</b>	<b>4,539,855</b>	<b>21,173,274</b>	<b>663,156</b>	<b>950,362</b>	<b>7,027,623</b>	<b>200,150</b>	<b>69,675,903</b>
Change in net assets	2,941,272	61,741,694	1,222,766	7,674,420	19,047,594	2,027,121	471,797	2,024,354	(37,515)	97,113,503
Net assets, beginning of year	8,052,888	290,309,128	21,174,365	52,632,313	203,831,281	11,302,667	4,885,931	38,518,480	462,337	631,169,390
<b>Net assets, end of year</b>	<b>\$ 10,994,160</b>	<b>\$ 352,050,822</b>	<b>\$ 22,397,131</b>	<b>\$ 60,306,733</b>	<b>\$ 222,878,875</b>	<b>\$ 13,329,788</b>	<b>\$ 5,357,728</b>	<b>\$ 40,542,834</b>	<b>\$ 424,822</b>	<b>\$ 728,282,893</b>