

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

JUNE 30, 2013 and 2012

WITH

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The University of Arkansas Foundation, Inc. and subsidiary, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the 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, 2013 and 2012, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information 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.

Hogan Taylor LLP

September 30, 2013

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

June 30, 2013 and 2012

	2013	2012
Assets		
Contributions receivable, net	\$ 38,470,190	\$ 51,874,709
Interest receivable	2,375,241	1,853,869
Investments, at fair value	745,144,731	679,169,662
Cash value of life insurance	985,888	869,703
Land, buildings and equipment, net of accumulated depreciation of \$255,834 at 2013 and 2012	1,106,752	1,106,752
Total assets	\$ 788,082,802	\$ 734,874,695
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 8,052,081	\$ 4,460,326
Annuity obligations	15,203,960	14,803,420
Total liabilities	23,256,041	19,263,746
Net assets:		
Unrestricted	81,420,607	78,209,537
Temporarily restricted	135,972,796	142,134,510
Permanently restricted	547,433,358	495,266,902
Total net assets	764,826,761	715,610,949
Total liabilities and net assets	\$ 788,082,802	\$ 734,874,695

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 13,833,957	\$ 34,533,501	\$ 13,537,888	\$ 61,905,346
Interest and dividends	3,101,469	5,235,204	292,510	8,629,183
Net realized and unrealized gains on investments	5,156,968	17,226,689	38,352,838	60,736,495
Other	99,896	-	-	99,896
Net asset reclassifications, including release from restrictions - satisfaction of restrictions	51,747,615	(51,747,615)	-	-
Total revenues, gains and other support	73,939,905	5,247,779	52,183,236	131,370,920
Expenses and losses:				
Program services:				
Construction	9,849,918	-	-	9,849,918
Research	16,466,276	-	-	16,466,276
Faculty/staff support	14,209,298	-	-	14,209,298
Scholarships and awards	8,979,379	-	-	8,979,379
Public/staff relations	2,141,738	-	-	2,141,738
Equipment	4,382,484	-	-	4,382,484
Sponsored programs	1,087,359	-	-	1,087,359
Other	11,386,078	-	-	11,386,078
Total program services	68,502,530	-	-	68,502,530
Supporting services:				
Management and general	433,739	-	-	433,739
Fundraising	1,592,953	-	-	1,592,953
Change in value of split-interest agreements	-	-	(44,758)	(44,758)
Provision for loss on uncollectible contributions	199,613	11,409,493	61,538	11,670,644
Total supporting services	2,226,305	11,409,493	16,780	13,652,578
Total expenses and losses	70,728,835	11,409,493	16,780	82,155,108
Change in net assets	3,211,070	(6,161,714)	52,166,456	49,215,812
Net assets, beginning of year	78,209,537	142,134,510	495,266,902	715,610,949
Net assets, end of year	\$ 81,420,607	\$ 135,972,796	\$ 547,433,358	\$ 764,826,761

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 (losses) on investments	9,975,125	14,001,076	(16,536,815)	7,439,386
Other	107,908	-	-	107,908
Net asset reclassifications, including release from restrictions - satisfaction of restrictions	63,188,522	(70,065,719)	6,877,197	-
Total revenues, gains and other support	89,236,400	(17,712,788)	3,403,634	74,927,246
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
Total program services	84,587,377	-	-	84,587,377
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
Total supporting services	2,503,576	(21,928)	530,165	3,011,813
Total expenses and losses	87,090,953	(21,928)	530,165	87,599,190
Change in net assets	2,145,447	(17,690,860)	2,873,469	(12,671,944)
Net assets, beginning of year	76,064,090	159,825,370	492,393,433	728,282,893
Net assets, end of year	\$ 78,209,537	\$ 142,134,510	\$ 495,266,902	\$ 715,610,949

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ 49,215,812	\$ (12,671,944)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change in value of split-interest agreements	44,758	503,313
Net realized and unrealized gains on investments	(60,736,495)	(7,439,386)
Net increase (decrease) in provision for loss on uncollectible contributions	6,394,299	(106,499)
Increase in cash value of life insurance	(116,185)	(111,036)
Noncash gifts of land	-	(721,000)
Interest restricted for long-term investment	(341,974)	(391,376)
Contributions restricted for long-term investment	(11,582,869)	(15,271,770)
Change in assets and liabilities:		
Decrease in contributions receivable	7,010,220	15,358,903
(Increase) decrease in interest receivable	(521,372)	1,027,691
(Decrease) increase in accounts payable	3,591,755	(1,728,043)
	(7,042,051)	(21,551,147)
Cash Flows from Investing Activities		
Proceeds from sale of investments	246,930,293	229,191,791
Purchase of investments	(252,168,867)	(221,637,422)
	(5,238,574)	7,554,369
Cash Flows from Financing Activities		
Proceeds from contributions restricted for:		
Investment in endowment	11,582,869	15,271,770
Investment subject to annuity obligations	2,175,814	151,769
Other financing activities:		
Interest restricted for reinvestment	341,974	391,376
Payment of annuity obligations	(1,820,032)	(1,818,137)
	12,280,625	13,996,778
Net cash provided by financing activities	12,280,625	13,996,778
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, 2013 and 2012

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

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 Foundation paid approximately \$2.3 million in custodial and investment advisory fees during the years ended June 30, 2013 and 2012. These fees are netted against interest and dividend revenue in the Statements of Activities.

The financial statements include marketable and nonmarketable alternative investments valued at approximately \$228 million (30% of net assets) and \$215 million (30% of net assets) as of June 30, 2013 and 2012, 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.

Investments 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 fair 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.

Donated assets

Donated assets are carried at the lower of fair value on the date of receipt or year-end fair 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. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2010.

Subsequent events

Management has evaluated subsequent events through September 30, 2013, 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:

	2013	2012
Due in less than one year	\$ 26,703,579	\$ 30,901,955
Due in one to five years	24,065,975	28,164,348
Due in more than five years	762,049	731,700
	<u>51,531,603</u>	<u>59,798,003</u>
Less: allowance for doubtful accounts	(7,823,802)	(1,429,188)
Unamortized discount	(5,237,611)	(6,494,106)
	<u>(13,061,413)</u>	<u>(7,923,294)</u>
	<u>\$ 38,470,190</u>	<u>\$ 51,874,709</u>

Note 3 – 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, 2013 and 2012, were \$480,451 and \$467,900, respectively, including interest which ranges from 3% to 11%.

Aggregate annual maturities of annuity obligations at June 30, 2013, are as follows:

Year	Amount
2014	\$ 1,351,937
2015	1,332,550
2016	1,294,358
2017	1,220,311
2018	1,136,607
Thereafter	8,868,197
	<u>\$ 15,203,960</u>

Note 4 – Temporarily Restricted Net Assets

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

	2013	2012
Construction	\$ 54,868,819	\$ 59,782,679
Faculty/staff support	15,772,792	15,329,003
Institutional support	21,685,012	27,312,434
Research	22,267,034	18,997,754
Scholarships and awards	21,379,139	20,712,640
	<u>\$ 135,972,796</u>	<u>\$ 142,134,510</u>

Note 5 – 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:

	2013	2012
Construction	\$ 16,175,623	\$ 14,958,452
Faculty/staff support	175,187,874	160,785,357
Institutional support	129,995,913	115,388,333
Research	31,444,926	26,010,734
Scholarships and awards	173,350,561	156,086,691
Other	21,278,461	22,037,335
	<u>\$ 547,433,358</u>	<u>\$ 495,266,902</u>

Note 6 – 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:

	2013	2012
Construction	\$ 9,737,148	\$ 30,172,250
Scholarships and awards	15,037,836	8,147,583
Research	7,907,074	12,753,397
Faculty/staff support	8,375,470	6,886,218
Other	10,690,087	12,106,271
	<u>\$ 51,747,615</u>	<u>\$ 70,065,719</u>

Note 7 – 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 \$130,000 and \$123,500 in fiscal years 2013 and 2012, respectively.

Note 8 – 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 9 – 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 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, 2013 and 2012. The transfers into and out of Level 3 assets for the years ended June 30, 2013 and 2012, 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:

2013	Assets			
	Level 1	Level 2	Level 3	Total
Equity Securities:				
United States	\$ 31,500,420	\$ 13,874	\$ -	\$ 31,514,294
International	3,312,810	-	2,875	3,315,685
REITs	3,001,508	-	-	3,001,508
Fixed Income:				
Government Debt Securities, U.S. (a)	499,798	13,832,333	-	14,332,131
Government Debt Securities, other	-	-	-	-
Other Debt Securities	847,078	41,941	-	889,019
Commingled Funds:				
U.S. Equity (b)	24,456,633	20,365,993	-	44,822,626
International Equity (c)	31,530,363	63,869,188	-	95,399,551
Commodities (d)	-	-	-	-
U.S. Government Bonds (e)	3,001,508	25,664,067	-	28,665,575
Corporate Bonds (f)	18,856,916	129,602,472	-	148,459,388
Exchange Traded Funds (g):				
Equity	7,957,712	-	-	7,957,712
Fixed income	13,999,333	-	-	13,999,333
Other Partnerships:				
United States (h)	-	-	59,750,540	59,750,540
International (i)	-	-	50,654,496	50,654,496
Nonmarketable alternatives (j)	-	-	113,893,354	113,893,354
Marketable alternatives (k)	-	-	118,265,957	118,265,957
Money Market and short-term investments	10,223,306	256	-	10,223,562
Total	\$ 149,187,385	\$ 253,390,124	\$ 342,567,222	\$ 745,144,731

2012	Assets			
	Level 1	Level 2	Level 3	Total
Equity Securities:				
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
Fixed Income:				
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
Commingled Funds:				
U.S. Equity (b)	10,891,452	23,725,371	-	34,616,823
International Equity (c)	11,822,087	56,975,488	-	68,797,575
Commodities (d)	-	2,087,376	-	2,087,376
U.S. Government Bonds (e)	2,803,990	35,248,880	-	38,052,870
Corporate Bonds (f)	16,789,150	135,709,486	-	152,498,636
Other Partnerships:				
United States (h)	-	-	59,912,488	59,912,488
International (i)	-	-	39,698,818	39,698,818
Nonmarketable alternatives (j)	-	-	113,398,432	113,398,432
Marketable alternatives (k)	-	-	101,564,172	101,564,172
Money markets and short-term investments	13,301,420	193	-	13,301,613
Total	\$ 96,522,847	\$ 268,069,723	\$ 314,577,092	\$ 679,169,662

- (a) This class includes U.S. Treasury securities managed to approximate the risk and return characteristics of the Barclays Capital U.S. Treasury OTR 10-year Index. Daily liquidity is available.
- (b) 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. Daily redemptions are available with a one- to two-business day notice.
- (c) This class includes mutual funds and collective trust funds invested in the common stocks of international companies with approximately 47% in emerging markets funds and 36% in developed markets funds and 17% in globally focused natural resources. Benchmarks include the MSCI World ex-U.S. Index, MSCI Japan Small Cap Index, MSCI Emerging Markets Index, S&P Frontier Markets Indices and Lipper Natural Resources Index. Mutual funds that offer daily redemptions comprise about one-third of the assets. Approximately 9% of the assets are in a mutual fund that offers daily liquidity with a two-week notice requirement. The remaining funds can be redeemed semi-monthly with a two-business day notice requirement.
- (d) This class includes a collective trust fund that makes commodities related investments benchmarked to the S&P GS Commodity Index Equal Weighted.
- (e) This class includes investments in a collective trust fund indexed to the Barclays U.S. Intermediate Government Bond Index. Daily redemptions are available with a two-business day notice.
- (f) This class includes investments in mutual funds and collective trust funds indexed to the Barclays High Yield Corporate Index, U.S. Credit Index and Intermediate Credit Index. The funds offer daily redemptions with approximately 70% of the assets subject to a two-business day notice requirement.
- (g) This class includes exchange-traded funds holding securities indexed to the FTSE Emerging Markets Index and the Markit iBoxx USD Liquid Investment Grade Bond Index. Daily liquidity is available.
- (h) This class includes investments in limited partnerships that invest primarily in U.S. common stocks benchmarked to the S&P 500 Index. 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. Approximately 27% of the assets can be redeemed monthly with a five-business day notice. Quarterly redemptions are available for 62% of the assets with a 60-day notice. The remaining 11% of assets are in a partnership that allows annual redemptions of up to 20% of the balance with a 90-day notice requirement and requires a five-year withdrawal period to exit the fund.
- (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 may be subject to lock-up requirements. Redemption options range from semi-monthly to quarterly with notice requirements ranging from 5 to 30 days. About 20% of assets have a lock-up, which expires in 2014.
- (j) 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 General Partners of the underlying partnerships determine the timing of investments and distributions. Redemptions are only available to the extent of net cash distributions received from the General Partners of the underlying partnerships.
- (k) 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. Subject to the liquidity terms of the underlying funds, the Foundation may request withdrawals monthly with a ten- day notice which may be waived by the General Partner.

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the fiscal years ended June 30, 2013 and 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
Purchases	-	1,824,649	11,813,333	1,300,063	11,084,746	26,022,791
Sales	(419)	(12,322,618)	(6,950,442)	(4,910,766)	(18,398,761)	(42,583,006)
Transfer into (out) of Level 3	-	-	-	-	-	-
Investment income	-	-	423,069	-	-	423,069
Unrealized gain	6,972	10,336,021	4,356,097	4,105,625	24,015,800	42,820,515
Realized gain (loss)	(6,860)	-	1,313,621	-	-	1,306,761
Balance, June 30, 2013	\$ 2,875	\$ 59,750,540	\$ 50,654,496	\$ 113,893,354	\$ 118,265,957	\$ 342,567,222

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 \$93,833 and \$136,187 as of June 30, 2013 and 2012, 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 2013 and 2012 to the 36-month average fair 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:

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 11,159,223	\$ 519,546,193	\$ 530,705,416
Board-designated endowment funds	22,569,711	-	-	22,569,711
	<u>\$ 22,569,711</u>	<u>\$ 11,159,223</u>	<u>\$ 519,546,193</u>	<u>\$ 553,275,127</u>
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>

Changes in endowment net assets for the fiscal years ended June 30, 2013 and 2012:

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, June 30, 2012	23,080,429	9,546,719	469,043,131	501,670,279
Investment return:				
Interest and dividends	164,006	78,888	3,633,340	3,876,234
Net realized and unrealized gains on long-term investments	2,520,056	1,129,089	55,671,510	59,320,655
Total investment return	2,684,062	1,207,977	59,304,850	63,196,889
Contributions	4,643,068	670,599	6,269,202	11,582,869
Appropriation of endowment assets for expenditure	(7,837,848)	(266,072)	(15,070,990)	(23,174,910)
Endowment net assets, June 30, 2013	\$ 22,569,711	\$ 11,159,223	\$ 519,546,193	\$ 553,275,127

Note 12 – Significant Concentrations

Pledges receivable

Five pledges approximate 47% and 50% of total contributions receivable at June 30, 2013 and 2012, respectively.

SUPPLEMENTAL SCHEDULES

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.
SCHEDULE OF ACTIVITIES BY DEVELOPMENT COUNCIL
Year ended June 30, 2013

	System	Fayetteville	Agriculture	Little Rock	Medical Sciences	Monticello	Pine Bluff	Arkansas Cancer Research Center	Batesville	Total
Revenues, gains and other support:										
Contributions	\$ 460,789	\$ 30,481,839	\$ 1,971,961	\$ 4,045,635	\$ 15,830,605	\$ 533,498	\$ 795,906	\$ 7,672,221	\$ 112,892	\$ 61,905,346
Interest and dividends	572,236	3,658,492	298,391	664,746	2,751,619	127,782	67,253	479,536	9,128	8,629,183
Net realized and unrealized gains on investments	1,121,208	34,518,931	1,246,493	4,869,826	15,317,304	1,224,934	433,317	1,905,118	99,364	60,736,495
Other	-	-	-	66,656	775	28,975	-	3,490	-	99,896
Total revenues, gains and other support	2,154,233	68,659,262	3,516,845	9,646,863	33,900,303	1,915,189	1,296,476	10,060,365	221,384	131,370,920
Expenses and losses:										
Program services:										
Construction	40,000	6,737,128	-	593,194	1,201,917	1,268,639	9,040	-	-	9,849,918
Research	-	6,815,815	1,213,891	2,482	2,340,373	-	-	6,093,715	-	16,466,276
Faculty/staff support	2,816,007	5,855,585	112,666	1,017,554	3,324,397	92,802	59,364	930,173	750	14,209,298
Scholarships and awards	99,528	6,312,113	120,653	1,197,552	549,832	378,868	270,394	4,398	46,041	8,979,379
Public/staff relations	108,923	374,083	274,840	262,752	879,265	35,021	72,230	125,864	8,760	2,141,738
Equipment	116,200	1,084,346	495,857	408,839	709,175	35,099	10,100	1,511,513	11,355	4,382,484
Sponsored programs	30,443	415,166	159,888	51,675	211,089	5,452	38,119	158,276	17,251	1,087,359
Other	371,771	6,171,013	789,897	1,400,123	2,079,527	97,174	93,048	381,823	1,702	11,386,078
Total program services	3,582,872	33,765,249	3,167,692	4,934,171	11,295,575	1,913,055	552,295	9,205,762	85,859	68,502,530
Supporting services:										
Management and general	787	135,036	12,234	173,742	75,865	7,599	7,408	21,068	-	433,739
Fundraising	54,201	605,034	350	177,419	238,482	2,266	33,153	466,296	15,752	1,592,953
Change in value of split-interest agreements	-	(63,621)	1,725	27,622	90,884	(14,781)	141	(86,728)	-	(44,758)
Provision for loss on uncollectible pledges	-	3,577,547	8,300	629,132	2,325,663	-	-	5,130,002	-	11,670,644
Total supporting services	54,988	4,253,996	22,609	1,007,915	2,730,894	(4,916)	40,702	5,530,638	15,752	13,652,578
Total expenses and losses	3,637,860	38,019,245	3,190,301	5,942,086	14,026,469	1,908,139	592,997	14,736,400	101,611	82,155,108
Change in net assets	(1,483,627)	30,640,017	326,544	3,704,777	19,873,834	7,050	703,479	(4,676,035)	119,773	49,215,812
Net assets, beginning 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
Net assets, end of year	\$ 8,123,014	\$ 371,590,595	\$ 22,437,670	\$ 66,118,346	\$ 236,239,682	\$ 13,243,391	\$ 6,260,348	\$ 39,715,950	\$ 1,097,765	\$ 764,826,761

See Independent Auditor's Report.

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
Total revenues, gains and other support	2,061,351	31,420,236	3,731,121	7,570,956	16,925,738	791,776	856,605	10,944,374	625,089	74,927,246
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
Total program services	3,425,559	41,123,721	3,919,269	5,211,469	22,993,815	864,361	601,112	6,392,030	56,041	84,587,377
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
Total supporting services	23,311	1,396,759	97,857	252,651	444,950	20,862	56,352	703,193	15,878	3,011,813
Total expenses and losses	3,448,870	42,520,480	4,017,126	5,464,120	23,438,765	885,223	657,464	7,095,223	71,919	87,599,190
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

See Independent Auditor's Report.