

**UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL  
SCHEDULES**

**JUNE 30, 2009 and 2008**

**WITH**

**INDEPENDENT AUDITORS' REPORT**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of 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, 2009 and 2008, 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. Tullius Taylor Sartain & Sartain LLP audited the consolidated financial statements of the University of Arkansas Foundation, Inc. and subsidiary as of and for the year ended June 30, 2008, and merged with Hogan & Slovacek P.C. to form HoganTaylor LLP effective January 1, 2009.

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, 2009 and 2008, 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 16 and 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



September 30, 2009

**UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**June 30, 2009 and 2008**

	2009	2008
<b>Assets</b>		
Contributions receivable, net	\$ 48,324,720	\$ 45,353,912
Interest receivable	1,836,038	2,731,858
Notes and other receivables	109,009	122,627
Investments, at fair value	511,171,565	644,774,668
Cash value of life insurance	611,051	579,509
Land	466,752	402,752
Buildings and equipment, net of accumulated depreciation of \$255,834 and \$574,923 at 2009 and 2008, respectively	-	100,448
Total assets	\$ 562,519,135	\$ 694,065,774
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 4,472,451	\$ 3,845,654
Annuity obligations	15,443,283	18,362,092
Total liabilities	19,915,734	22,207,746
Net assets:		
Unrestricted	58,603,949	68,443,630
Temporarily restricted	122,865,216	120,779,568
Permanently restricted	361,134,236	482,634,830
Total net assets	542,603,401	671,858,028
Total liabilities and net assets	\$ 562,519,135	\$ 694,065,774

**UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2009**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 9,990,516	\$ 34,366,182	\$ 16,958,147	\$ 61,314,845
Sponsored programs	1,281,377	522,068	-	1,803,445
Interest and dividends	7,998,304	5,675,006	377,025	14,050,335
Net realized and unrealized gains (losses) on investments	(4,783,057)	11,439,449	(136,769,203)	(130,112,811)
Other	298,852	126,419	-	425,271
Net assets released from restrictions	49,587,271	(49,587,271)	-	-
<b>Total revenues, gains (losses) and other support</b>	<b>64,373,263</b>	<b>2,541,853</b>	<b>(119,434,031)</b>	<b>(52,518,915)</b>
Expenses and losses:				
Program services-				
Construction	17,348,644	-	-	17,348,644
Research	11,066,779	-	-	11,066,779
Faculty/staff support	13,784,029	-	-	13,784,029
Scholarships and awards	7,895,491	-	-	7,895,491
Public/staff relations	3,470,596	-	-	3,470,596
Equipment	3,024,442	-	-	3,024,442
Sponsored programs	1,698,323	-	-	1,698,323
Other	13,219,521	-	-	13,219,521
<b>Total program services</b>	<b>71,507,825</b>	<b>-</b>	<b>-</b>	<b>71,507,825</b>
Supporting services-				
Management and general	673,223	-	-	673,223
Fundraising	2,033,376	-	-	2,033,376
Change in value of split-interest agreements	-	-	1,808,528	1,808,528
Provision for loss on uncollectible contributions	(1,480)	456,205	258,035	712,760
<b>Total supporting services</b>	<b>2,705,119</b>	<b>456,205</b>	<b>2,066,563</b>	<b>5,227,887</b>
<b>Total expenses and losses</b>	<b>74,212,944</b>	<b>456,205</b>	<b>2,066,563</b>	<b>76,735,712</b>
Change in net assets	(9,839,681)	2,085,648	(121,500,594)	(129,254,627)
Net assets, beginning of year	68,443,630	120,779,568	482,634,830	671,858,028
Net assets, end of year	\$ 58,603,949	\$ 122,865,216	\$ 361,134,236	\$ 542,603,401

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2008**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 14,532,220	\$ 34,219,015	\$ 20,799,614	\$ 69,550,849
Sponsored programs	1,596,271	707,217	1,333	2,304,821
Interest and dividends	7,391,747	7,732,579	385,285	15,509,611
Net realized and unrealized gains (losses) on investments	3,904,585	11,673,539	(25,098,956)	(9,520,832)
Other	288,075	136,698	-	424,773
Net assets released from restrictions	60,409,296	(60,409,296)	-	-
<b>Total revenues, gains (losses) and other support</b>	<b>88,122,194</b>	<b>(5,940,248)</b>	<b>(3,912,724)</b>	<b>78,269,222</b>
Expenses and losses:				
Program services-				
Construction	28,961,869	-	-	28,961,869
Research	9,079,492	-	-	9,079,492
Faculty/staff support	12,313,504	-	-	12,313,504
Scholarships and awards	6,961,894	-	-	6,961,894
Public/staff relations	3,309,574	-	-	3,309,574
Equipment	4,161,863	-	-	4,161,863
Sponsored programs	1,880,172	-	-	1,880,172
Other	16,130,492	-	-	16,130,492
<b>Total program services</b>	<b>82,798,860</b>	<b>-</b>	<b>-</b>	<b>82,798,860</b>
Supporting services-				
Management and general	490,018	-	-	490,018
Fundraising	1,987,070	-	-	1,987,070
Change in value of split-interest agreements	-	-	1,605,194	1,605,194
Provision for loss on uncollectible contributions	4,978	119,856	155,680	280,514
<b>Total supporting services</b>	<b>2,482,066</b>	<b>119,856</b>	<b>1,760,874</b>	<b>4,362,796</b>
<b>Total expenses and losses</b>	<b>85,280,926</b>	<b>119,856</b>	<b>1,760,874</b>	<b>87,161,656</b>
<b>Change in net assets</b>	<b>2,841,268</b>	<b>(6,060,104)</b>	<b>(5,673,598)</b>	<b>(8,892,434)</b>
<b>Net assets, beginning of year</b>	<b>65,602,362</b>	<b>126,839,672</b>	<b>488,308,428</b>	<b>680,750,462</b>
<b>Net assets, end of year</b>	<b>\$ 68,443,630</b>	<b>\$ 120,779,568</b>	<b>\$ 482,634,830</b>	<b>\$ 671,858,028</b>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ARKANSAS FOUNDATION, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended June 30, 2009 and 2008**

	2009	2008
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (129,254,627)	\$ (8,892,434)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	-	44,680
Change in value of split-interest agreements	1,783,050	976,581
Net realized and unrealized losses on investments	130,112,811	9,520,832
Net loss on disposal of buildings and equipment	171,588	419,404
Provision for loss on uncollectible contributions	213,000	11,000
Increase in cash value of life insurance	(31,542)	(80,027)
Noncash gifts	(271,000)	(1,160,000)
Interest restricted for long-term investment	(377,025)	(385,285)
Contributions restricted for long-term investment	(16,932,070)	(22,875,102)
Change in assets and liabilities:		
(Increase) decrease in contributions receivable	(3,183,808)	835,226
Decrease (increase) in interest receivable	895,820	(583,024)
Decrease in notes and other receivables	13,618	12,574
Increase (decrease) in accounts payable	626,797	(1,513,022)
	(16,233,388)	(23,668,597)
<b>Net cash used in operating activities</b>		
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	564,953,455	1,189,808,952
Purchase of investments	(561,463,163)	(1,187,934,141)
Proceeds from sale of buildings and equipment	135,860	876,957
Purchase of buildings and equipment	-	(105,327)
	3,626,152	2,646,441
<b>Net cash provided by investing activities</b>		
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for:		
Investment in endowment	16,932,070	22,875,102
Investment subject to annuity obligations	(2,551,546)	(62,806)
Other financing activities:		
Interest restricted for reinvestment	377,025	385,285
Payment of annuity obligations	(2,150,313)	(2,175,425)
	12,607,236	21,022,156
<b>Net cash provided by financing activities</b>		
<b>Net change in cash and cash at beginning and end of year</b>	\$ -	\$ -

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2009 and 2008**

**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.

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.

The financial statements include marketable and non-marketable alternative investments valued at approximately \$124 million (23% of net assets) and \$140 million (21% of net assets) as of June 30, 2009 and 2008, 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.

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 statement of activities as net assets released from restrictions. All income derived from the assets is to remain temporarily restricted until such a time as the restrictions are met in accordance with donor stipulations.

#### Permanently restricted net assets

Permanently restricted net assets are subject to donor imposed restrictions that stipulate that resources be maintained permanently, but permit the Foundation to expend income derived from the assets in an amount equal to a predetermined "spending rate" established by the Foundation's Board of Directors (see Note 12).

#### 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.

#### Purchased investments

Investments consist primarily of marketable securities. The Foundation accounts for investments under Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. This Statement 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 statement of activities.

#### 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. As long as the Foundation complies with applicable regulations, it is not subject to income taxes. However, events or interpretations of such regulations could result in contingent income tax obligations. Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes* (FIN 48), was issued to clarify the accounting for contingent income tax obligations. Management has elected to defer the application of FIN 48, which must be adopted in years beginning after December 15, 2008. The University of Arkansas Foundation, Inc. will continue to follow SFAS No. 5, *Accounting for Contingencies*, until it adopts FIN 48.

#### 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.

## Note 2 – Contributions Receivable

Contributions receivable consist of the following unconditional promises to give at June 30, 2009 and 2008:

	2009	2008
Due in less than one year	\$ 25,477,900	\$ 20,349,076
Due in one to five years	30,622,700	32,781,016
Due in more than five years	2,505,134	3,315,631
	<u>58,605,734</u>	<u>56,445,723</u>
Less: Allowance for doubtful accounts	840,500	627,500
Unamortized discount	9,440,514	10,464,311
	<u>10,281,014</u>	<u>11,091,811</u>
	<u>\$ 48,324,720</u>	<u>\$ 45,353,912</u>

## Note 3 – Investments

The market values of the Foundation's portfolios of investments, consisting primarily of marketable securities as of June 30, 2009 and 2008, are as follows:

	2009	2008
Equity securities	\$ 68,812,915	\$ 100,936,202
Fixed income securities	93,347,430	100,568,136
Short-term investments	6,302,638	(2,952,690)
Commingled funds – equities	97,414,219	191,587,744
Commingled funds – fixed income	66,496,430	70,656,195
Other partnerships	52,312,147	38,030,883
Convertibles and other	2,420,614	5,854,547
Non-marketable alternatives	57,108,960	44,554,884
Marketable alternatives	66,956,212	95,538,767
	<u>\$ 511,171,565</u>	<u>\$ 644,774,668</u>

The Foundation paid approximately \$2.6 million and \$2.9 million in custodial and investment advisory fees during 2009 and 2008, respectively. These fees are included in net realized and unrealized gain (losses) on investments in the Statements of Activities.

The Foundation invests in various investment securities, including marketable and non-marketable alternatives, which are in general 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 investment advisor. 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 statement 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 – Revolving Line of Credit

The Foundation has a \$30 million revolving line of credit with a bank maturing October 14, 2009. At June 30, 2009, there were no outstanding borrowings under this agreement. Future borrowings on this line of credit will bear interest at LIBOR, as defined in the agreement, plus 0.40% (0.69% at June 30, 2009). The agreement includes certain covenants including, but not limited to, the Foundation maintaining an aggregate level of unrestricted cash, cash equivalents, and investments of at least \$33 million. The Foundation expects the Bank to renew the line of credit at maturity with similar terms.

#### Note 5 – 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, 2009 and 2008, were \$513,200 and \$554,200, respectively, including interest which ranges from 5% to 12%.

Aggregate annual maturities of annuity obligations at June 30, 2009, are as follows:

<u>Year</u>	Amount
2010	\$ 1,165,125
2011	973,246
2012	929,859
2013	866,153
2014	800,256
Thereafter	<u>10,708,644</u>
	<u>\$ 15,443,283</u>

#### Note 6 – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Construction	\$ 47,116,032	\$ 47,045,378
Research	16,217,168	17,191,189
Scholarships and awards	16,415,949	15,923,474
Other	<u>43,116,067</u>	<u>40,619,527</u>
	<u>\$ 122,865,216</u>	<u>\$ 120,779,568</u>

#### Note 7 – 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. The income equal to the spending rate is expendable to support:

	2009	2008
Scholarships and awards	\$ 127,194,114	\$ 165,512,430
Designated fund expenditures	233,940,122	317,122,400
	<u>\$ 361,134,236</u>	<u>\$ 482,634,830</u>

### **Note 8 – Net Assets Released From Restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows:

	2009	2008
Construction	\$ 14,115,632	\$ 23,875,051
Scholarships and awards	6,871,988	6,261,405
Research	9,126,449	9,238,466
Faculty/staff support	8,037,559	8,022,431
Other	11,435,643	13,011,943
	<u>\$ 49,587,271</u>	<u>\$ 60,409,296</u>

### **Note 9 – 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 \$113,300 and \$109,234 in fiscal years 2009 and 2008, respectively.

### **Note 10 – 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.

## Notes receivable

The fair value is estimated by discounting the future cash flows using the current rates for similar notes receivable with the same remaining maturities.

## **Note 11 – Fair Value Measurements**

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157) establishes 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 a fund within the hierarchy is based upon the pricing transparency of that fund and does not necessarily correspond to the Foundation's perceived risk of that fund.

The three levels of the fair value hierarchy under FAS 157 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, mutual funds, and U.S. government debt securities 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 corporate, asset and mortgage-backed debt securities valued at market corroborated prices and certain equity 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.

The following table sets forth, by level, within the valuation hierarchy amounts recorded in the Foundation's financial statements at fair value as of June 30, 2009:

	Assets				Liabilities	
	Level 1	Level 2	Level 3	Total	Level 3	Total
Equity securities	\$ 68,812,915	\$ -	\$ -	\$ 68,812,915	\$ -	\$ -
Fixed income securities	16,543,001	76,724,837	79,592	93,347,430	-	-
Short-term investments	6,302,638	-	-	6,302,638	-	-
Commingled funds - equities	43,914,900	53,499,319	-	97,414,219	-	-
Commingled funds - fixed income	66,496,430	-	-	66,496,430	-	-
Other partnerships	-	4,060,259	48,251,888	52,312,147	-	-
Convertibles and other	2,243,263	177,351	-	2,420,614	-	-
Non-marketable alternatives	-	-	57,108,960	57,108,960	-	-
Marketable alternatives	-	-	66,956,212	66,956,212	-	-
Annuity obligations	-	-	-	-	15,443,283	15,443,283
<b>Total</b>	<b>\$ 204,313,147</b>	<b>\$ 134,461,766</b>	<b>\$ 172,396,652</b>	<b>\$ 511,171,565</b>	<b>\$ 15,443,283</b>	<b>\$ 15,443,283</b>

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, 2009:

	Assets				Liabilities		
	Fixed Income Securities	Non-marketable Alternatives	Other Partnerships	Marketable Alternatives	Total	Annuity Obligations	Total
Balance, July 1, 2008	\$ 1,341,433	\$ 52,768,647	\$ 41,076,732	\$ 89,658,059	\$ 184,844,871	\$ 18,362,092	\$ 18,362,092
Purchases, issuances and settlements (net)	(1,237,097)	18,126,269	15,174,074	(12,062,716)	20,000,530	614,301	614,301
Net realized and unrealized losses	(24,744)	(13,785,956)	(7,998,918)	(10,639,131)	(32,448,749)	(3,533,110)	(3,533,110)
<b>Balance, June 30, 2009</b>	<b>\$ 79,592</b>	<b>\$ 57,108,960</b>	<b>\$ 48,251,888</b>	<b>\$ 66,956,212</b>	<b>\$ 172,396,652</b>	<b>\$ 15,443,283</b>	<b>\$ 15,443,283</b>

All net realized and unrealized losses in the table above are reflected in the accompanying statement of activities. Net unrealized losses of \$30,021,073 relates to those assets held by the Foundation at June 30, 2009.

## Note 12 – 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 restricted net assets based upon donor stipulations. Deficiencies were \$3,619,468 and \$64,802 as of June 30, 2009 and 2008, 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 (rolling five-year periods). It is recognized that the real return objective may be difficult to attain in every five-year period, but should be attainable on average over time. Over a three to five-year market cycle, the returns earned should exceed the rates of return of the appropriate style benchmarks. The returns are also 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 Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**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 ranging from 4.4% to 4.5% in 2009 and 4.5% in 2008 (not to exceed 5% at any time, per the agreement) to the 36-month average aggregate market value of previously allocated income producing endowment investments as of the end of each quarter.

Endowment net asset composition by type of fund as of June 30, 2009 and 2008, are as follows:

2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 8,944,384	\$ 5,008,782	\$ 350,082,574	\$ 364,035,740
Board-designated endowment funds	13,252,822	-	-	13,252,822
	<u>\$ 22,197,206</u>	<u>\$ 5,008,782</u>	<u>\$ 350,082,574</u>	<u>\$ 377,288,562</u>
2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 7,863,926	\$ 8,008,843	\$ 468,586,790	\$ 484,459,559
Board-designated endowment funds	21,480,551	-	-	21,480,551
	<u>\$ 29,344,477</u>	<u>\$ 8,008,843</u>	<u>\$ 468,586,790</u>	<u>\$ 505,940,110</u>

Changes in endowment net assets for the fiscal years ended June 30, 2009 and 2008:

2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 29,344,477	\$ 8,008,843	\$ 468,586,790	\$ 505,940,110
Investment return:				
Interest and dividends	76,538	24,241	126,092	226,871
Net realized and unrealized losses on long term investments	(7,874,640)	(2,289,419)	(120,735,858)	(130,899,917)
Total investment return	<u>(7,798,102)</u>	<u>(2,265,178)</u>	<u>(120,609,766)</u>	<u>(130,673,046)</u>
Contributions	1,013,236	119,156	15,261,597	16,393,989
Appropriation for endowment assets for expenditure	<u>(362,405)</u>	<u>(854,039)</u>	<u>(13,156,047)</u>	<u>(14,372,491)</u>
Endowment net assets, end of year	<u>\$ 22,197,206</u>	<u>\$ 5,008,782</u>	<u>\$ 350,082,574</u>	<u>\$ 377,288,562</u>
2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 25,975,853	\$ 10,399,931	\$ 472,787,117	\$ 509,162,901
Investment return:				
Interest and dividends	116,775	36,842	122,044	275,661
Net realized and unrealized losses on long term investments	(1,295,575)	(435,073)	(11,366,557)	(13,097,205)
Total investment return	<u>(1,178,800)</u>	<u>(398,231)</u>	<u>(11,244,513)</u>	<u>(12,821,544)</u>
Contributions	3,072,910	1,486,019	18,307,799	22,866,728
Appropriation for endowment assets for expenditure	<u>1,474,514</u>	<u>(3,478,876)</u>	<u>(11,263,613)</u>	<u>(13,267,975)</u>
Endowment net assets, end of year	<u>\$ 29,344,477</u>	<u>\$ 8,008,843</u>	<u>\$ 468,586,790</u>	<u>\$ 505,940,110</u>



**Note 13 – Significant Concentrations**

Six pledges approximate 34% and 36% of total contributions receivable at June 30, 2009 and 2008, respectively.

**Note 14 – Subsequent Events**

In the preparation of the accompanying consolidated financial statements, management has evaluated subsequent events through September 30, 2009, the date the consolidated financial statements were available to be issued.

**SUPPLEMENTAL SCHEDULES**

**UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**SCHEDULE OF ACTIVITIES BY DEVELOPMENT COUNCIL**

**Year ended June 30, 2009**

	System	Fayetteville	Agriculture	Little Rock	Medical Sciences	Monticello	Pine Bluff	Arkansas Cancer Research Center	Batesville	Total
<b>Revenues, gains and other support:</b>										
Contributions	\$ 619,829	\$ 21,043,777	\$ 5,122,250	\$ 4,651,941	\$ 16,973,726	\$ 807,620	\$ 1,341,164	\$ 10,654,371	\$ 100,167	\$ 61,314,845
Sponsored programs	215,018	20,756	1,179,533	39,755	219,056	-	124,727	4,600	-	1,803,445
Interest and dividends	1,543,115	6,690,513	552,439	1,212,856	2,991,004	187,080	94,145	771,425	7,758	14,050,335
Net realized and unrealized losses on investments	(820,141)	(73,220,648)	(2,998,281)	(10,626,535)	(33,926,089)	(2,634,350)	(903,691)	(4,895,731)	(87,345)	(130,112,811)
Other	-	22,707	114,170	152,528	88,596	36,173	11,097	-	-	425,271
<b>Total revenues, gains (losses) and other support</b>	<b>1,557,821</b>	<b>(45,442,895)</b>	<b>3,970,111</b>	<b>(4,569,455)</b>	<b>(13,653,707)</b>	<b>(1,603,477)</b>	<b>667,442</b>	<b>6,534,665</b>	<b>20,580</b>	<b>(52,518,915)</b>
<b>Expenses and losses:</b>										
<b>Program services-</b>										
Construction	-	2,704,402	1,055,840	-	5,348,316	92,623	483,888	7,663,575	-	17,348,644
Research	-	4,946,016	1,721,552	2,397	1,587,978	-	-	2,808,836	-	11,066,779
Faculty/staff support	1,740,321	6,275,580	198,364	1,302,373	2,831,042	114,064	90,313	1,231,972	-	13,784,029
Scholarships and awards	90,042	4,826,386	129,934	1,003,297	938,922	385,504	473,117	-	48,289	7,895,491
Public/staff relations	134,166	769,131	327,979	322,121	1,521,638	34,952	114,204	229,862	16,543	3,470,596
Equipment	404,551	837,009	825,762	109,961	726,034	7,303	64,511	48,631	680	3,024,442
Sponsored programs	49,729	257,854	1,054,573	34,776	239,100	-	21,736	36,205	4,350	1,698,323
Other	654,280	8,030,770	833,925	1,617,231	1,531,900	149,015	408,200	(6,097)	297	13,219,521
<b>Total program services</b>	<b>3,073,089</b>	<b>28,647,148</b>	<b>6,147,929</b>	<b>4,392,156</b>	<b>14,724,930</b>	<b>783,461</b>	<b>1,655,969</b>	<b>12,012,984</b>	<b>70,159</b>	<b>71,507,825</b>
<b>Supporting services-</b>										
Management and general	4,411	234,150	20,365	21,111	376,857	5,288	6,229	4,773	39	673,223
Fundraising	26,088	1,235,892	50,829	25,584	176,979	27,392	59,705	421,636	9,271	2,033,376
Change in value of split-interest agreements	-	1,451,111	-	3,203	163,981	32,769	-	157,464	-	1,808,528
Provision for loss on uncollectible pledges	-	293,387	10,500	20,540	328,333	-	-	60,000	-	712,760
<b>Total supporting services</b>	<b>30,499</b>	<b>3,214,540</b>	<b>81,694</b>	<b>70,438</b>	<b>1,046,150</b>	<b>65,449</b>	<b>65,934</b>	<b>643,873</b>	<b>9,310</b>	<b>5,227,887</b>
<b>Total expenses and losses</b>	<b>3,103,588</b>	<b>31,861,688</b>	<b>6,229,623</b>	<b>4,462,594</b>	<b>15,771,080</b>	<b>848,910</b>	<b>1,721,903</b>	<b>12,656,857</b>	<b>79,469</b>	<b>76,735,712</b>
<b>Change in net assets</b>	<b>(1,545,767)</b>	<b>(77,304,583)</b>	<b>(2,259,512)</b>	<b>(9,032,049)</b>	<b>(29,424,787)</b>	<b>(2,452,387)</b>	<b>(1,054,461)</b>	<b>(6,122,192)</b>	<b>(58,889)</b>	<b>(129,254,627)</b>
<b>Net assets, beginning of year</b>	<b>7,672,143</b>	<b>337,794,694</b>	<b>23,375,203</b>	<b>63,711,088</b>	<b>179,792,829</b>	<b>12,505,692</b>	<b>5,245,480</b>	<b>41,316,636</b>	<b>444,263</b>	<b>671,858,028</b>
<b>Net assets, end of year</b>	<b>\$ 6,126,376</b>	<b>\$ 260,490,111</b>	<b>\$ 21,115,691</b>	<b>\$ 54,679,039</b>	<b>\$ 150,368,042</b>	<b>\$ 10,053,305</b>	<b>\$ 4,191,019</b>	<b>\$ 35,194,444</b>	<b>\$ 385,374</b>	<b>\$ 542,603,401</b>

**UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**SCHEDULE OF ACTIVITIES BY DEVELOPMENT COUNCIL**

**Year ended June 30, 2008**

	System	Fayetteville	Agriculture	Little Rock	Medical Sciences	Monticello	Pine Bluff	Arkansas Cancer Research Center	Batesville	Total
Revenues, gains and other support:										
Contributions	\$ 765,255	\$ 27,553,211	\$ 2,742,952	\$ 7,727,530	\$ 12,291,415	\$ 2,270,034	\$ 1,435,521	\$ 14,696,322	\$ 68,609	\$ 69,550,849
Sponsored programs	210,368	38,667	1,163,878	100,785	665,470	-	122,755	2,898	-	2,304,821
Interest and dividends	1,334,481	7,620,083	625,672	1,219,602	3,649,876	215,871	131,583	703,564	8,879	15,509,611
Net realized and unrealized gains (losses) on investments	481,677	(5,409,811)	(116,704)	(818,281)	(3,079,113)	(239,371)	(52,574)	(278,673)	(7,982)	(9,520,832)
Other	-	16,361	147,553	145,394	92,634	-	22,831	-	-	424,773
<b>Total revenues, gains and other support</b>	<b>2,791,781</b>	<b>29,818,511</b>	<b>4,563,351</b>	<b>8,375,030</b>	<b>13,620,282</b>	<b>2,246,534</b>	<b>1,660,116</b>	<b>15,124,111</b>	<b>69,506</b>	<b>78,269,222</b>
Expenses and losses:										
Program services-										
Construction	4,084	20,703,590	293,518	-	7,381,247	109,861	450,330	19,239	-	28,961,869
Research	-	3,347,455	1,689,513	11,022	1,329,041	1,438	-	2,701,023	-	9,079,492
Faculty/staff support	151,410	6,006,462	169,024	738,291	3,807,599	134,846	56,022	1,249,165	685	12,313,504
Scholarships and awards	122,293	4,411,380	196,672	982,246	459,936	346,789	410,284	-	32,294	6,961,894
Public/staff relations	164,155	906,495	281,455	324,997	1,204,727	60,771	152,665	204,289	10,020	3,309,574
Equipment	11,396	1,439,514	273,414	571,520	823,792	-	2,534	1,039,693	-	4,161,863
Sponsored programs	77,054	316,586	836,572	34,980	483,918	-	86,672	41,333	3,057	1,880,172
Other	369,956	10,036,729	744,980	1,786,582	2,263,754	244,932	341,243	340,837	1,479	16,130,492
<b>Total program services</b>	<b>900,348</b>	<b>47,168,211</b>	<b>4,485,148</b>	<b>4,449,638</b>	<b>17,754,014</b>	<b>898,637</b>	<b>1,499,750</b>	<b>5,595,579</b>	<b>47,535</b>	<b>82,798,860</b>
Supporting services-										
Management and general	1,379	265,102	77,460	33,529	87,908	9,496	9,358	5,765	21	490,018
Fundraising	6,253	1,228,595	65,788	82,787	143,453	12,111	59,042	371,940	17,101	1,987,070
Change in value of split-interest agreements	-	410,380	-	19,662	712,705	10,123	-	452,324	-	1,605,194
Provision for loss on uncollectible pledges	-	152,913	3,780	16,521	84,800	-	-	22,500	-	280,514
<b>Total supporting services</b>	<b>7,632</b>	<b>2,056,990</b>	<b>147,028</b>	<b>152,499</b>	<b>1,028,866</b>	<b>31,730</b>	<b>68,400</b>	<b>852,529</b>	<b>17,122</b>	<b>4,362,796</b>
<b>Total expenses and losses</b>	<b>907,980</b>	<b>49,225,201</b>	<b>4,632,176</b>	<b>4,602,137</b>	<b>18,782,880</b>	<b>930,367</b>	<b>1,568,150</b>	<b>6,448,108</b>	<b>64,657</b>	<b>87,161,656</b>
Change in net assets	1,883,801	(19,406,690)	(68,825)	3,772,893	(5,162,598)	1,316,167	91,966	8,676,003	4,849	(8,892,434)
Net assets, beginning of year	5,788,342	357,201,384	23,444,028	59,938,195	184,955,427	11,189,525	5,153,514	32,640,633	439,414	680,750,462
Net assets, end of year	\$ 7,672,143	\$ 337,794,694	\$ 23,375,203	\$ 63,711,088	\$ 179,792,829	\$ 12,505,692	\$ 5,245,480	\$ 41,316,636	\$ 444,263	\$ 671,858,028