

UNIVERSITY OF ARKANSAS FOUNDATION, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

JUNE 30, 2010 and 2009

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, 2010 and 2009, 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, 2010 and 2009, 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 supplemental 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 29, 2010

UNIVERSITY OF ARKANSAS FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2010 and 2009

	2010	2009
Assets		
Contributions receivable, net	\$ 78,609,611	\$ 48,324,720
Interest receivable	2,076,577	1,836,038
Investments, at fair value	571,798,818	511,171,565
Cash value of life insurance	643,968	611,051
Land, buildings and equipment, net of accumulated depreciation of \$255,834 at 2010 and 2009	390,752	466,752
Other	-	109,009
Total assets	<u>\$ 653,519,726</u>	<u>\$ 562,519,135</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 5,681,299	\$ 4,472,451
Annuity obligations	16,669,037	15,443,283
Total liabilities	<u>22,350,336</u>	<u>19,915,734</u>
Net assets:		
Unrestricted	69,625,749	58,603,949
Temporarily restricted	151,489,115	122,865,216
Permanently restricted	410,054,526	361,134,236
Total net assets	<u>631,169,390</u>	<u>542,603,401</u>
Total liabilities and net assets	<u>\$ 653,519,726</u>	<u>\$ 562,519,135</u>

UNIVERSITY OF ARKANSAS FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 12,125,457	\$ 59,301,035	\$ 20,379,836	\$ 91,806,328
Sponsored programs	1,231,335	399,787	-	1,631,122
Interest and dividends	5,801,437	5,277,288	338,743	11,417,468
Net realized and unrealized gains on investments	17,193,821	15,095,585	28,656,166	60,945,572
Other	269,676	124,545	-	394,221
Net assets released from restrictions	49,613,848	(49,613,848)	-	-
Total revenues, gains and other support	86,235,574	30,584,392	49,374,745	166,194,711
Expenses and losses:				
Program services:				
Construction	21,455,134	-	-	21,455,134
Research	10,242,053	-	-	10,242,053
Faculty/staff support	14,367,472	-	-	14,367,472
Scholarships and awards	6,954,482	-	-	6,954,482
Public/staff relations	2,538,153	-	-	2,538,153
Equipment	2,874,655	-	-	2,874,655
Sponsored programs	1,573,084	-	-	1,573,084
Other	12,592,218	-	-	12,592,218
Total program services	72,597,251	-	-	72,597,251
Supporting services:				
Management and general	350,617	-	-	350,617
Fundraising	2,193,246	-	-	2,193,246
Change in value of split-interest agreements	-	-	79,248	79,248
Provision for loss on uncollectible contributions	72,660	1,960,493	375,207	2,408,360
Total supporting services	2,616,523	1,960,493	454,455	5,031,471
Total expenses and losses	75,213,774	1,960,493	454,455	77,628,722
Change in net assets	11,021,800	28,623,899	48,920,290	88,565,989
Net assets, beginning of year	58,603,949	122,865,216	361,134,236	542,603,401
Net assets, end of year	\$ 69,625,749	\$ 151,489,115	\$ 410,054,526	\$ 631,169,390

See accompanying notes to consolidated financial statements.

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)	-	-
Total revenues, gains (losses) and other support	64,373,263	2,541,853	(119,434,031)	(52,518,915)
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
Total program services	71,507,825	-	-	71,507,825
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
Total supporting services	2,705,119	456,205	2,066,563	5,227,887
Total expenses and losses	74,212,944	456,205	2,066,563	76,735,712
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 STATEMENTS OF CASH FLOWS

Years ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	\$ 88,565,989	\$ (129,254,627)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in value of split-interest agreements	79,248	1,783,050
Net realized and unrealized (gains) losses on investments	(60,945,572)	130,112,811
Net loss on disposal of land, buildings and equipment	31,564	171,588
Net increase in provision for loss on uncollectible contributions	452,500	213,000
Increase in cash value of life insurance	(32,917)	(31,542)
Noncash gifts	(118,500)	(271,000)
Interest restricted for long-term investment	(382,812)	(377,025)
Contributions restricted for long-term investment	(23,745,817)	(16,932,070)
Change in assets and liabilities:		
Increase in contributions receivable	(30,737,391)	(3,183,808)
(Increase) decrease in interest receivable	(240,539)	895,820
Decrease in other	109,009	13,618
Increase in accounts payable	1,208,848	626,797
	(25,756,390)	(16,233,388)
Cash Flows from Investing Activities		
Proceeds from sale of investments	853,542,836	564,953,455
Purchase of investments	(853,224,517)	(561,463,163)
Proceeds from sale of land, buildings and equipment	162,936	135,860
	481,255	3,626,152
Cash Flows from Financing Activities		
Proceeds from contributions restricted for:		
Investment in endowment	23,745,817	16,932,070
Investment subject to annuity obligations	3,210,731	(2,551,546)
Other financing activities:		
Interest restricted for reinvestment	382,812	377,025
Payment of annuity obligations	(2,064,225)	(2,150,313)
	25,275,135	12,607,236
Net cash provided by financing activities	25,275,135	12,607,236
Net change in cash and cash at beginning and end of year	\$ -	\$ -

See accompanying notes to consolidated financial statements.

UNIVERSITY OF ARKANSAS FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

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.

The financial statements include marketable and non-marketable alternative investments valued at approximately \$168 million (27% of net assets) and \$124 million (23% of net assets) as of June 30, 2010 and 2009, 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 Statements 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 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.

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 Financial Accounting Standards Board issued new guidance on accounting for uncertainty in income taxes. The Foundation adopted this new guidance for the year ended June 30, 2010. 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 2007.

Note 2 – Contributions Receivable

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

	2010	2009
Due in less than one year	\$ 37,084,722	\$ 25,477,900
Due in one to five years	49,038,193	30,622,700
Due in more than five years	3,424,299	2,505,134
	<u>89,547,214</u>	<u>58,605,734</u>
Less: Allowance for doubtful accounts	1,293,000	840,500
Unamortized discount	9,644,603	9,440,514
	<u>10,937,603</u>	<u>10,281,014</u>
	<u>\$ 78,609,611</u>	<u>\$ 48,324,720</u>

Note 3 – Investments

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

	2010	2009
Equity securities	\$ 30,386,575	\$ 68,812,915
Fixed income securities	58,223,660	93,347,430
Short-term investments	3,900,263	6,302,638
Commingled funds – equities	89,814,486	97,414,219
Commingled funds – fixed income	156,026,090	66,496,430
Other partnerships	62,902,664	52,312,147
Convertibles and other	2,579,824	2,420,614
Non-marketable alternatives	82,807,976	57,108,960
Marketable alternatives	85,157,280	66,956,212
	<u>\$ 571,798,818</u>	<u>\$ 511,171,565</u>

The Foundation paid approximately \$2.9 million and \$2.6 million in custodial and investment advisory fees during 2010 and 2009, respectively. These fees are netted against interest and dividend revenue 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 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 – Revolving Line of Credit

The Foundation has a \$15 million revolving line of credit with a bank maturing December 15, 2010. At June 30, 2010 and 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% (0.75% at June 30, 2010). 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, 2010 and 2009, were \$533,400 and \$513,200, respectively, including interest which ranges from 5% to 12%.

Aggregate annual maturities of annuity obligations at June 30, 2010, are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 1,293,373
2012	1,199,701
2013	1,168,249
2014	1,053,166
2015	1,026,694
Thereafter	10,927,854
	<u>\$ 16,669,037</u>

Note 6 – Temporarily Restricted Net Assets

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

	<u>2010</u>	<u>2009</u>
Construction	\$ 65,758,420	\$ 47,116,032
Research	12,511,336	16,217,168
Scholarships and awards	18,357,673	16,415,949
Other	54,861,686	43,116,067
	<u>\$ 151,489,115</u>	<u>\$ 122,865,216</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. Permanently restricted net assets are designated for the following purposes at June 30:

	2010	2009
Scholarships and awards	\$ 124,471,400	\$ 127,194,114
Designated fund expenditures	285,583,126	233,940,122
	<u>\$ 410,054,526</u>	<u>\$ 361,134,236</u>

Note 8 – 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:

	2010	2009
Construction	\$ 15,535,558	\$ 14,115,632
Scholarships and awards	6,396,774	6,871,988
Research	8,703,823	9,126,449
Faculty/staff support	8,653,991	8,037,559
Other	10,323,702	11,435,643
	<u>\$ 49,613,848</u>	<u>\$ 49,587,271</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 \$99,500 and \$113,300 in fiscal years 2010 and 2009, 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.

Note 11 – 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 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 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.

There were no investment transfers in or out of Levels 1, 2, or 3 due to changes in the observability of significant inputs for the years ended June 30, 2010 and 2009.

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, 2010:

	Assets				Liabilities	
	Level 1	Level 2	Level 3	Total	Level 3	Total
Equity securities	\$ 30,375,230	\$ 11,345	\$ -	\$ 30,386,575	\$ -	\$ -
Fixed income securities	11,489,296	46,626,060	108,304	58,223,660	-	-
Short-term investments	3,900,263	-	-	3,900,263	-	-
Commingled funds – equities	22,881,207	66,933,279	-	89,814,486	-	-
Commingled funds – fixed income	31,767,760	124,258,330	-	156,026,090	-	-
Other partnerships	-	6,250,843	56,651,821	62,902,664	-	-
Convertibles and other	2,579,824	-	-	2,579,824	-	-
Non-marketable alternatives	-	-	82,807,976	82,807,976	-	-
Marketable alternatives	-	-	85,157,280	85,157,280	-	-
Annuity obligations	-	-	-	-	16,669,037	16,669,037
Total	\$ 102,993,580	\$ 244,079,857	\$ 224,725,381	\$ 571,798,818	\$ 16,669,037	\$ 16,669,037

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
Total	\$ 204,313,147	\$ 134,461,766	\$ 172,396,652	\$ 511,171,565	\$ 15,443,283	\$ 15,443,283

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, 2010:

	Assets				Liabilities		
	Fixed Income Securities	Non-marketable Alternatives	Other Partnerships	Marketable Alternatives	Total	Annuity Obligations	Total
Balance, July 1, 2009	\$ 79,592	\$ 57,108,960	\$ 48,251,888	\$ 66,956,212	\$ 172,396,652	\$ 15,443,283	\$ 15,443,283
Purchases, issuances and settlements (net)	19,983	10,614,040	(161,545)	12,924,561	23,397,039	(1,207,715)	(1,207,715)
Net realized and unrealized gains	8,729	15,084,976	8,561,478	5,276,507	28,931,690	2,433,469	2,433,469
Balance, June 30, 2010	\$ 108,304	\$ 82,807,976	\$ 56,651,821	\$ 85,157,280	\$ 224,725,381	\$ 16,669,037	\$ 16,669,037

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				Total	Liabilities	
	Fixed Income Securities	Non-marketable Alternatives	Other Partnerships	Marketable Alternatives		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)
Balance, June 30, 2009	\$ 79,592	\$ 57,108,960	\$48,251,888	\$ 66,956,212	\$ 172,396,652	\$15,443,283	\$15,443,283

All net realized and unrealized losses in the tables above are reflected in the accompanying Statements of Activities. Net unrealized gains of approximately \$25,900,000 and unrealized losses of \$30,021,073 relate to the Level 3 assets and liabilities held by the Foundation at June 30, 2010 and 2009, respectively.

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 \$250,155 and \$3,619,468 as of June 30, 2010 and 2009, 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 2010 and 2009 (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 are as follows:

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 10,000,563	\$ 5,116,504	\$ 383,728,128	\$ 398,845,195
Board-designated endowment funds	16,500,060	-	-	16,500,060
	<u>\$ 26,500,623</u>	<u>\$ 5,116,504</u>	<u>\$ 383,728,128</u>	<u>\$ 415,345,255</u>
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>

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

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 22,197,206	\$ 5,008,782	\$ 350,082,574	\$ 377,288,562
Investment return:				
Interest and dividends	219,414	490,216	3,337,838	4,047,468
Net realized and unrealized gains on long term investments	2,795,752	646,080	44,205,356	47,647,188
Total investment return	3,015,166	1,136,296	47,543,194	51,694,656
Contributions	2,310,693	138,954	8,325,790	10,775,437
Appropriation for endowment assets for expenditure	(1,022,442)	(1,167,528)	(22,223,430)	(24,413,400)
Endowment net assets, end of year	<u>\$ 26,500,623</u>	<u>\$ 5,116,504</u>	<u>\$ 383,728,128</u>	<u>\$ 415,345,255</u>
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	330,868	561,388	4,933,089	5,825,345
Net realized and unrealized losses on long term investments	(7,874,640)	(2,289,419)	(120,735,858)	(130,899,917)
Total investment return	(7,543,772)	(1,728,031)	(115,802,769)	(125,074,572)
Contributions	1,013,236	119,156	15,261,597	16,393,989
Appropriation for endowment assets for expenditure	(616,735)	(1,391,186)	(17,963,044)	(19,970,965)
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>

Note 13 – Significant Concentrations

Six pledges approximate 58% and 34% of total contributions receivable at June 30, 2010 and 2009, respectively.

Note 14 – Subsequent Events

In the preparation of the accompanying consolidated financial statements, management has evaluated subsequent events through September 29, 2010, 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, 2010

	System	Fayetteville	Agriculture	Little Rock	Medical Sciences	Monticello	Pine Bluff	Arkansas Cancer Research Center	Batesville	Total
Revenues, gains and other support:										
Contributions	\$ 947,747	\$ 20,532,859	\$ 995,296	\$ 7,824,119	\$ 49,494,842	\$ 719,852	\$ 1,543,364	\$ 9,658,068	\$ 90,181	\$ 91,806,328
Sponsored programs	2,488	33,029	927,830	352,070	233,949	841	55,470	25,445	-	1,631,122
Interest and dividends	884,161	4,857,904	524,484	1,239,132	3,012,778	182,242	89,841	617,480	9,446	11,417,468
Net realized and unrealized gains on investments	1,785,742	32,150,260	1,873,001	5,279,835	15,698,501	1,130,189	464,115	2,522,055	41,874	60,945,572
Other	-	16,920	57,889	221,805	28,558	43,968	16,079	9,002	-	394,221
Total revenues, gains and other support	3,620,138	57,590,972	4,378,500	14,916,961	68,468,628	2,077,092	2,168,869	12,832,050	141,501	166,194,711
Expenses and losses:										
Program services-										
Construction	-	1,258,883	144,747	10,819,643	3,107,888	214,130	739,511	5,170,332	-	21,455,134
Research	-	4,929,925	1,193,273	5,853	1,522,637	668	-	2,589,697	-	10,242,053
Faculty/staff support	686,802	7,232,574	415,207	837,753	4,778,473	83,835	102,619	230,209	-	14,367,472
Scholarships and awards	90,185	4,668,264	195,631	827,213	635,238	374,387	138,214	-	25,350	6,954,482
Public/staff relations	135,701	463,807	482,499	330,718	830,691	25,129	87,888	167,468	14,252	2,538,153
Equipment	(33,642)	689,107	291,839	303,565	1,308,148	-	39,794	275,675	169	2,874,655
Sponsored programs	22,781	335,675	839,524	78,819	240,953	375	2,735	52,222	-	1,573,084
Other	761,781	6,477,092	656,917	1,928,262	1,690,661	103,540	288,874	677,311	7,780	12,592,218
Total program services	1,663,608	26,055,327	4,219,637	15,131,826	14,114,689	802,064	1,399,635	9,162,914	47,551	72,597,251
Supporting services-										
Management and general	274	152,372	29,262	11,381	132,718	9,440	8,340	6,830	-	350,617
Fundraising	29,744	1,316,059	73,152	26,976	212,767	36,898	64,668	415,995	16,987	2,193,246
Change in value of split-interest agreements	-	68,728	1,725	2,430	123,273	(20,672)	1,314	(97,550)	-	79,248
Provision for loss on uncollectible pledges	-	179,469	(3,950)	1,791,074	421,942	-	-	19,825	-	2,408,360
Total supporting services	30,018	1,716,628	100,189	1,831,861	890,700	25,666	74,322	345,100	16,987	5,031,471
Total expenses and losses	1,693,626	27,771,955	4,319,826	16,963,687	15,005,389	827,730	1,473,957	9,508,014	64,538	77,628,722
Change in net assets	1,926,512	29,819,017	58,674	(2,046,726)	53,463,239	1,249,362	694,912	3,324,036	76,963	88,565,989
Net assets, beginning of year	6,126,376	260,490,111	21,115,691	54,679,039	150,368,042	10,053,305	4,191,019	35,194,444	385,374	542,603,401
Net assets, end 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

See independent auditor's report.

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
Revenues, gains and other support:										
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
Total revenues, gains (losses) and other support	1,557,821	(45,442,895)	3,970,111	(4,569,455)	(13,653,707)	(1,603,477)	667,442	6,534,665	20,580	(52,518,915)
Expenses and losses:										
Program services-										
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
Total program services	3,073,089	28,647,148	6,147,929	4,392,156	14,724,930	783,461	1,655,969	12,012,984	70,159	71,507,825
Supporting services-										
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
Total supporting services	30,499	3,214,540	81,694	70,438	1,046,150	65,449	65,934	643,873	9,310	5,227,887
Total expenses and losses	3,103,588	31,861,688	6,229,623	4,462,594	15,771,080	848,910	1,721,903	12,656,857	79,469	76,735,712
Change in net assets	(1,545,767)	(77,304,583)	(2,259,512)	(9,032,049)	(29,424,787)	(2,452,387)	(1,054,461)	(6,122,192)	(58,889)	(129,254,627)
Net assets, beginning 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
Net assets, end of year	\$ 6,126,376	\$ 260,490,111	\$ 21,115,691	\$ 54,679,039	\$ 150,368,042	\$ 10,053,305	\$ 4,191,019	\$ 35,194,444	\$ 385,374	\$ 542,603,401

See independent auditor's report.