

**UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES**

**JUNE 30, 2011 and 2010**

**WITH**

**INDEPENDENT AUDITORS' REPORT**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of University of Arkansas Foundation, Inc. and subsidiary as of June 30, 2011 and 2010, 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 University of Arkansas Foundation, Inc. and subsidiary as of June 30, 2011 and 2010, 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 18 and 19 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, 2011

**UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**June 30, 2011 and 2010**

	2011	2010
<b>Assets</b>		
Contributions receivable, net	\$ 67,127,113	\$ 78,609,611
Interest receivable	2,881,560	2,076,577
Investments, at fair value	679,284,645	571,798,818
Cash value of life insurance	758,667	643,968
Land, buildings and equipment, net of accumulated depreciation of \$255,834 at 2011 and 2010	385,752	390,752
Total assets	<u>\$ 750,437,737</u>	<u>\$ 653,519,726</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 6,188,369	\$ 5,681,299
Annuity obligations	15,966,475	16,669,037
Total liabilities	<u>22,154,844</u>	<u>22,350,336</u>
Net assets:		
Unrestricted	76,064,090	69,625,749
Temporarily restricted	159,825,370	151,489,115
Permanently restricted	492,393,433	410,054,526
Total net assets	<u>728,282,893</u>	<u>631,169,390</u>
Total liabilities and net assets	<u>\$ 750,437,737</u>	<u>\$ 653,519,726</u>

**UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2011**

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

**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)	-	-
<b>Total revenues, gains and other support</b>	<b>86,235,574</b>	<b>30,584,392</b>	<b>49,374,745</b>	<b>166,194,711</b>
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
<b>Total program services</b>	<b>72,597,251</b>	<b>-</b>	<b>-</b>	<b>72,597,251</b>
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
<b>Total supporting services</b>	<b>2,616,523</b>	<b>1,960,493</b>	<b>454,455</b>	<b>5,031,471</b>
<b>Total expenses and losses</b>	<b>75,213,774</b>	<b>1,960,493</b>	<b>454,455</b>	<b>77,628,722</b>
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

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

**Years ended June 30, 2011 and 2010**

	2011	2010
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 97,113,503	\$ 88,565,989
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in value of split-interest agreements	405,500	79,248
Net realized and unrealized gains on investments	(88,766,128)	(60,945,572)
Net loss on disposal of land, buildings and equipment	5,000	31,564
Net increase in provision for loss on uncollectible contributions	243,000	452,500
Increase in cash value of life insurance	(114,699)	(32,917)
Noncash gifts	-	(118,500)
Interest restricted for long-term investment	(388,215)	(382,812)
Contributions restricted for long-term investment	(23,550,129)	(23,745,817)
Change in assets and liabilities:		
Decrease (increase) in contributions receivable	11,239,498	(30,737,391)
Increase in interest receivable	(804,983)	(240,539)
Decrease in other	-	109,009
Increase in accounts payable	507,070	1,208,848
	(4,110,583)	(25,756,390)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	203,862,774	853,542,836
Purchase of investments	(222,582,473)	(853,224,517)
Proceeds from sale of land, buildings and equipment	-	162,936
	(18,719,699)	481,255
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for:		
Investment in endowment	23,550,129	23,745,817
Investment subject to annuity obligations	814,226	3,210,731
Other financing activities:		
Interest restricted for reinvestment	388,215	382,812
Payment of annuity obligations	(1,922,288)	(2,064,225)
	22,830,282	25,275,135
Net cash provided by financing activities		
	22,830,282	25,275,135
Net change in cash and cash at beginning and end of year	\$ -	\$ -

**UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2011 and 2010**

**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 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 nonmarketable alternative investments valued at approximately \$211 million (29% of net assets) and \$168 million (27% of net assets) as of June 30, 2011 and 2010, 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.

#### 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 and principal in an amount equal to a predetermined "spending rate" 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.

#### 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 accounting for income taxes may, at times, involve some degree of uncertainty and, as such, lead to uncertain tax positions having been taken. Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

#### 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.

#### New accounting pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued new guidance, improving disclosures and fair value measurements to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements. The new guidance also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new guidance is effective for periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The new guidance was adopted for the year ended June 30,

2011, except for the Level 3 reconciliation disclosures, which is required in 2012. The adoption in 2011 did not materially affect, and the future adoption is not expected to materially affect, the Foundation's financial statements.

### Subsequent events

Management has evaluated subsequent events through September 30, 2011, 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:

	2011	2010
Due in less than one year	\$ 32,705,329	\$ 37,084,722
Due in one to five years	42,347,580	49,038,193
Due in more than five years	1,827,649	3,424,299
	<u>76,880,558</u>	<u>89,547,214</u>
Less: Allowance for doubtful accounts	(1,536,000)	(1,293,000)
Unamortized discount	(8,217,445)	(9,644,603)
	<u>(9,753,445)</u>	<u>(10,937,603)</u>
	<u>\$ 67,127,113</u>	<u>\$ 78,609,611</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:

	2011	2010
Equity securities	\$ 38,120,994	\$ 31,821,673
Fixed income securities	40,826,995	48,620,786
Commingled funds	304,657,934	262,388,587
Other partnerships	79,265,993	56,651,821
Marketable alternatives	103,747,498	85,157,280
Nonmarketable alternatives	107,489,229	82,807,976
Money market and short-term investments	5,176,002	4,350,695
	<u>\$ 679,284,645</u>	<u>\$ 571,798,818</u>

The Foundation paid approximately \$2.1 million and \$2.9 million in custodial and investment advisory fees during 2011 and 2010, 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 nonmarketable 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 outsourced chief investment officer. Although the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Foundation and its beneficiaries.

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

#### Note 4 – Annuity Obligations

The Foundation has received gifts in return for lifetime annuities. The terms of these annuities vary depending upon the life expectancy of the recipients. The quarterly payments as of June 30, 2011 and 2010, were \$460,400 and \$533,400, respectively, including interest which ranges from 5% to 12%.

Aggregate annual maturities of annuity obligations at June 30, 2011, are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 1,288,280
2013	1,255,168
2014	1,205,204
2015	1,167,376
2016	1,122,036
Thereafter	9,928,411
	<u>\$ 15,966,475</u>

#### Note 5 – Temporarily Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
Construction	\$ 81,004,461	\$ 68,537,814
Faculty/staff support	15,275,877	14,344,793
Institutional support	23,171,555	27,332,110
Research	15,777,424	19,996,762
Scholarships and awards	19,632,989	18,795,624
Other	4,963,064	2,482,012
	<u>\$ 159,825,370</u>	<u>\$ 151,489,115</u>

#### Note 6 – Permanently Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
Construction	\$ 15,348,496	\$ 11,834,553
Faculty/staff support	162,110,123	133,467,240
Institutional support	115,221,701	103,602,599
Research	26,705,393	22,480,022
Scholarships and awards	154,275,777	126,665,986
Other	18,731,943	12,004,126
	<u>\$ 492,393,433</u>	<u>\$ 410,054,526</u>

## Note 7 – Net Assets Released From Restrictions

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

	2011	2010
Construction	\$ 12,056,110	\$ 15,535,558
Scholarships and awards	7,180,583	6,396,774
Research	11,846,646	8,703,823
Faculty/staff support	6,928,649	8,653,991
Other	10,033,059	10,323,702
	<u>\$ 48,045,047</u>	<u>\$ 49,613,848</u>

## Note 8 – Pension Plan

The Foundation has a defined contribution (money-purchase) retirement plan covering substantially all employees. The Foundation's contributions to the plan are 5% of participants' salaries. In addition, the Foundation will match all contributions made by employees up to and including 5%. Contributions are limited to 10% of the total compensation paid to participants during the plan year. Participants' interests are immediately vested. Employer contributions to the plan were \$102,900 and \$99,500 in fiscal years 2011 and 2010, respectively.

## Note 9 – Financial Instruments

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

### Interest receivable

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

### Contributions receivable

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

## Note 10 – Fair Value Measurements

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

An individual investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Foundation. The Foundation considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of 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 and mutual funds are the primary investments included in Level 1 and are valued at the individual security's closing market price.
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Observable inputs are those that reflect the assumptions market participants would use in pricing the asset developed based on market data obtained from independent sources. These types of sources would include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, models or other valuation methodologies. Level 2 investments include U.S. and international government debt securities valued at market corroborated prices and certain equity and fixed income investments in commingled investment vehicles reported at net asset value derived from the market prices of security holdings.
- Level 3 – Inputs that are unobservable. Unobservable inputs are those that reflect the Foundation's own assumptions about the assumptions that market participants would use in pricing the asset developed based on the best information available. These types of sources would include investment manager pricing for private equities, hedge funds and certain limited partnerships. Limited partner interests in private equity and other partnerships and hedge fund investments are included in Level 3 and are valued using the individual investment manager's reported estimates of fair value developed in accordance with reasonable valuation policies.

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

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

There were no investment transfers due to changes in the observability of significant inputs between Level 1 and Level 2 assets during the years ended June 30, 2011 and 2010. The transfers in and out of Level 3 assets for the year ended June 30, 2011, are outlined in the table that summarizes changes in fair value of the Foundation's Level 3 assets below. There were no transfers in and out of Level 3 assets for the year ended June 30, 2010.

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, 2011 and 2010:

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

2010	Assets				Liabilities	
	Level 1	Level 2	Level 3	Total	Level 3	Total
Equity Securities:						
United States	\$ 21,332,476	\$ 11,345	\$ -	\$ 21,343,821	\$ -	\$ -
International	2,805,052	-	-	2,805,052	-	-
REITs	7,672,800	-	-	7,672,800	-	-
Fixed Income:						
Government Debt Securities, US (a)	837,361	22,037,187	-	22,874,548	-	-
Government Debt Securities, International (b)	-	24,549,937	108,304	24,658,241	-	-
Other Debt Securities	1,048,838	39,159	-	1,087,997	-	-
Commingled Funds:						
US Equity (c)	15,841,588	23,829,666	-	39,671,254	-	-
International Equity (d)	8,258,934	44,325,929	-	52,584,863	-	-
Commodities (e)	-	5,028,456	-	5,028,456	-	-
US Government Bonds (f)	3,074,058	73,739,065	-	76,813,123	-	-
Corporate Bonds (g)	6,004,018	82,286,873	-	88,290,891	-	-
Other Partnerships:						
United States (h)	-	-	24,104,566	24,104,566	-	-
International (i)	-	-	32,547,255	32,547,255	-	-
Marketable alternatives (j)	-	-	85,157,280	85,157,280	-	-
Nonmarketable alternatives (k)	-	-	82,807,976	82,807,976	-	-
Money markets and short-term investments	4,350,695	-	-	4,350,695	-	-
Annuity obligations	-	-	-	-	16,669,037	16,669,037
<b>Total</b>	<b>\$ 71,225,820</b>	<b>\$ 275,847,617</b>	<b>\$ 224,725,381</b>	<b>\$ 571,798,818</b>	<b>\$ 16,669,037</b>	<b>\$ 16,669,037</b>

(a) This class includes U.S. Treasury securities managed to approximate the risk and return characteristics of the Barclays Capital U.S. Treasury OTR 10 Index.

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

- (c) This class includes mutual funds and collective trust funds invested in the common stocks of large cap U.S. companies. The holdings are benchmarked to or are similar in composition to the S&P 100 Index.
- (d) This class includes mutual funds and collective trust funds invested in the common stocks of international companies with approximately 60% in developed markets funds and 40% in emerging markets funds. Benchmarks include the MSCI World ex U.S. Index, MSCI Japan Index, MSCI Emerging Markets Index and S&P Emerging and Frontier Middle East & Africa Index.
- (e) This class includes a collective trust fund that makes commodities related investments benchmarked to the S&P GS Commodity Index Equal Weighted.
- (f) This class includes investments in collective trust funds indexed to the Barclays Capital U.S. Intermediate Government Bond Index and the Barclays Capital U.S. Treasury Inflation Protected Securities (TIPS) Index.
- (g) This class includes investments in collective trust funds indexed to the Barclays Capital U.S. Credit Index and the Barclays Capital U.S. Intermediate Credit Index.
- (h) This class includes investments in limited partnerships that invest primarily in U.S. common stocks and are benchmarked to the S&P 500. These partnerships may invest in securities outside the benchmark index, use futures and options, invest in private investments and engage in short-selling. Liquidity may be restricted through the use of lock-up periods and notice requirements.
- (i) This class includes investments in limited partnerships that invest primarily in international common stocks, including both developed and emerging markets. Approximately 75% of partnership assets are benchmarked to the MSCI EAFE Index. MSCI World and Emerging Markets Indices serve as benchmarks for the remaining 25% of assets. Withdrawals are subject to notice requirements and approximately 25% of assets are invested in partnerships with lock-up requirements.
- (j) This class includes investments through a limited partnership in multiple underlying hedge funds with the overall investment objective of achieving equity-like returns with minimal correlation to major market averages. The portfolio is diversified by investment strategy and by manager. Liquidity and lock-up periods will vary by individual fund.
- (k) This class includes investments through a limited partnership in multiple underlying private equity partnerships. The underlying investments are diversified by strategy, fund and vintage year.

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

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

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

The tables 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					Total
	Other Partnerships US	Other Partnerships International	Nonmarketable Alternatives	Marketable Alternatives	Government Debt Securities-International	
Balance, July 1, 2009	\$ 25,383,251	\$ 22,868,637	\$ 57,108,960	\$ 66,956,212	\$ 79,592	\$ 172,396,652
Purchases	724,871	28,161,780	16,518,017	22,046,561	177,144	67,628,373
Sales	(6,934,481)	(22,113,715)	(5,903,977)	(9,122,000)	(157,161)	(44,231,334)
Unrealized gain	5,159,042	651,352	13,218,883	5,276,507	92,913	24,398,697
Realized gain (loss)	(228,117)	2,979,201	1,866,093	-	(84,184)	4,532,993
Balance, June 30, 2010	<u>\$ 24,104,566</u>	<u>\$ 32,547,255</u>	<u>\$ 82,807,976</u>	<u>\$ 85,157,280</u>	<u>\$ 108,304</u>	<u>\$ 224,725,381</u>

	Liabilities	
	Annuity Obligations	Total
Balance, July 1, 2009	\$ 15,443,283	\$ 15,443,283
New annuity obligations	505,947	505,947
Payments to beneficiaries	(2,064,225)	(2,064,225)
Sales/Liquidations	(104,552)	(104,552)
Adjustments	455,116	455,116
Investment income	342,348	342,348
Unrealized gain	2,620,401	2,620,401
Realized loss	(529,281)	(529,281)
Balance, June 30, 2010	<u>\$ 16,669,037</u>	<u>\$ 16,669,037</u>

All net realized and unrealized gains (losses) in the tables above are reflected in the accompanying Statements of Activities. Net unrealized gains of approximately \$50,000,000 and \$27,000,000 relate to the Level 3 assets and liabilities held by the Foundation at June 30, 2011 and 2010, respectively.

## Note 11 – Endowment

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



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

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

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

**Funds with Deficiencies** – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in permanently restricted net assets based upon donor stipulations. Deficiencies were \$110,945 and \$250,155 as of June 30, 2011 and 2010, 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 ranging from 4.4% to 4.5% in 2011 and 2010 to the 36-month average market value as of the end of each quarter.

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

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 11,646,928	\$ 7,167,139	\$ 461,451,054	\$ 480,265,121
Board-designated endowment funds	18,836,431	-	-	18,836,431
	<u>\$ 30,483,359</u>	<u>\$ 7,167,139</u>	<u>\$ 461,451,054</u>	<u>\$ 499,101,552</u>
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>

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

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

## Note 12 – Significant Concentrations

Five pledges approximate 62% and six pledges approximate 58% of total contributions receivable at June 30, 2011 and 2010, respectively.

**SUPPLEMENTAL SCHEDULES**

**UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**SCHEDULE OF ACTIVITIES BY DEVELOPMENT COUNCIL**

**Year ended June 30, 2011**

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

**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
<b>Total revenues, gains and other support</b>	<b>3,620,138</b>	<b>57,590,972</b>	<b>4,378,500</b>	<b>14,916,961</b>	<b>68,468,628</b>	<b>2,077,092</b>	<b>2,168,869</b>	<b>12,832,050</b>	<b>141,501</b>	<b>166,194,711</b>
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
<b>Total program services</b>	<b>1,663,608</b>	<b>26,055,327</b>	<b>4,219,637</b>	<b>15,131,826</b>	<b>14,114,689</b>	<b>802,064</b>	<b>1,399,635</b>	<b>9,162,914</b>	<b>47,551</b>	<b>72,597,251</b>
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
<b>Total supporting services</b>	<b>30,018</b>	<b>1,716,628</b>	<b>100,189</b>	<b>1,831,861</b>	<b>890,700</b>	<b>25,666</b>	<b>74,322</b>	<b>345,100</b>	<b>16,987</b>	<b>5,031,471</b>
<b>Total expenses and losses</b>	<b>1,693,626</b>	<b>27,771,955</b>	<b>4,319,826</b>	<b>16,963,687</b>	<b>15,005,389</b>	<b>827,730</b>	<b>1,473,957</b>	<b>9,508,014</b>	<b>64,538</b>	<b>77,628,722</b>
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