

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

JUNE 30, 2014 and 2013

WITH

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The University of Arkansas Foundation, Inc. and subsidiary, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Arkansas Foundation, Inc. and subsidiary as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

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

Hogan Taylor LLP

October 1, 2014

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

June 30, 2014 and 2013

	2014	2013
Assets		
Contributions receivable, net	\$ 38,520,860	\$ 38,470,190
Interest receivable	2,362,912	2,375,241
Investments, at fair value	840,292,509	745,144,731
Cash value of life insurance	1,087,458	985,888
Land, buildings and equipment, net of accumulated depreciation of \$255,834 at 2014 and 2013	1,106,752	1,106,752
Total assets	\$ 883,370,491	\$ 788,082,802
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 5,448,456	\$ 8,052,081
Annuity obligations	16,259,097	15,203,960
Total liabilities	21,707,553	23,256,041
Net assets:		
Unrestricted	99,506,691	81,420,607
Temporarily restricted	133,237,061	135,972,796
Permanently restricted	628,919,186	547,433,358
Total net assets	861,662,938	764,826,761
Total liabilities and net assets	\$ 883,370,491	\$ 788,082,802

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 17,142,424	\$ 20,833,716	\$ 20,174,687	\$ 58,150,827
Interest and dividends	4,049,309	4,742,684	230,660	9,022,653
Net realized and unrealized gains on investments	12,452,076	18,327,054	61,343,144	92,122,274
Other	95,692	-	-	95,692
Net asset reclassifications, including release from restrictions - satisfaction of restrictions	47,020,021	(47,020,021)	-	-
Total revenues, gains and other support	80,759,522	(3,116,567)	81,748,491	159,391,446
Expenses and losses:				
Program services:				
Construction	3,849,767	-	-	3,849,767
Research	15,501,885	-	-	15,501,885
Faculty/staff support	12,849,910	-	-	12,849,910
Scholarships and awards	10,008,729	-	-	10,008,729
Public/staff relations	1,970,719	-	-	1,970,719
Equipment	3,266,928	-	-	3,266,928
Sponsored programs	1,019,543	-	-	1,019,543
Other	12,440,080	-	-	12,440,080
Total program services	60,907,561	-	-	60,907,561
Supporting services:				
Management and general	406,980	-	-	406,980
Fundraising	1,350,842	-	-	1,350,842
Change in value of split-interest agreements	330	177	193,323	193,830
Provision for loss/(recovery) on uncollectible contributions	7,725	(381,009)	69,340	(303,944)
Total supporting services	1,765,877	(380,832)	262,663	1,647,708
Total expenses and losses	62,673,438	(380,832)	262,663	62,555,269
Change in net assets	18,086,084	(2,735,735)	81,485,828	96,836,177
Net assets, beginning of year	81,420,607	135,972,796	547,433,358	764,826,761
Net assets, end of year	\$ 99,506,691	\$ 133,237,061	\$ 628,919,186	\$ 861,662,938

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2013

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

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ 96,836,177	\$ 49,215,812
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in value of split-interest agreements	193,830	(44,758)
Net realized and unrealized gains on investments	(92,122,274)	(60,736,495)
Net increase (decrease) in allowance for loss on doubtful accounts	(6,739,850)	6,394,299
Increase in cash value of life insurance	(101,570)	(116,185)
Interest restricted for long-term investment	(311,790)	(341,974)
Contributions restricted for long-term investment	(20,174,687)	(13,537,888)
Change in assets and liabilities:		
Contributions receivable	8,106,719	8,965,239
Interest receivable	12,329	(521,372)
Accounts payable	(2,603,625)	3,591,755
	(16,904,741)	(7,131,567)
Net cash used in operating activities		
Cash Flows from Investing Activities		
Proceeds from sale of investments	295,340,222	246,930,293
Purchase of investments	(298,365,726)	(252,168,867)
	(3,025,504)	(5,238,574)
Net cash used in investing activities		
Cash Flows from Financing Activities		
Proceeds from contributions restricted for:		
Investment in endowment	18,757,148	11,582,869
Investment subject to annuity obligations	2,667,261	2,265,330
Other financing activities:		
Interest restricted for reinvestment	311,790	341,974
Payment of annuity obligations	(1,805,954)	(1,820,032)
	19,930,245	12,370,141
Net cash provided by financing activities		
Net change in cash and cash at beginning and end of year	\$ -	\$ -

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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.

Unrestricted net assets

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

Temporarily restricted net assets

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

Permanently restricted net assets

Permanently restricted net assets are subject to donor-imposed restrictions that stipulate resources be maintained permanently, but permit the Foundation to expend income and principal in accordance with the spending policy established by the Foundation's Board of Directors (see Note 10).

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.

The allowance for uncollectible contributions receivable 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 this estimate in future years.

Investments

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

The Foundation paid approximately \$2.3 million in custodial and investment advisory fees during the years ended June 30, 2014 and 2013. These fees are netted against interest and dividends revenue in the Statements of Activities.

The financial statements include marketable and nonmarketable alternative investments valued at approximately \$270 million (31% of net assets) and \$228 million (30% of net assets) as of June 30, 2014 and 2013, respectively. The fair values of alternative investments have been prepared by management in the absence of readily determinable fair values. These values are based on information provided by the respective fund managers.

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

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

Donated assets

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

Income taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is considered an organization that is not a private foundation. Generally, the Foundation is no longer subject to income tax examinations by the federal, state or local tax authorities for years before 2011.

Subsequent events

Management has evaluated subsequent events through October 1, 2014, 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:

	2014	2013
Due in less than one year	\$ 17,321,580	\$ 26,703,579
Due in one to five years	25,009,651	24,065,975
Due in more than five years	1,394,120	762,049
	<u>43,725,351</u>	<u>51,531,603</u>
Less: allowance for doubtful accounts	(1,083,952)	(7,823,802)
Unamortized discount	(4,120,539)	(5,237,611)
	<u>(5,204,491)</u>	<u>(13,061,413)</u>
	<u>\$ 38,520,860</u>	<u>\$ 38,470,190</u>

Note 3 – Annuity Obligations

The Foundation has received gifts in return for lifetime annuities. The terms of these annuities vary depending upon the life expectancy of the recipients. The quarterly payments as of June 30, 2014 and 2013, were \$440,171 and \$480,451, respectively, including interest which ranges from 3% to 11%.

Aggregate annual maturities of annuity obligations at June 30, 2014, are as follows:

Year	Amount
2015	\$ 1,308,524
2016	1,295,177
2017	1,258,515
2018	1,192,086
2019	1,115,996
Thereafter	<u>10,088,799</u>
	<u>\$ 16,259,097</u>

Note 4 – Temporarily Restricted Net Assets

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

	2014	2013
Construction	\$ 47,229,315	\$ 54,868,819
Faculty/staff support	16,860,098	15,772,792
Institutional support	27,975,013	21,685,012
Research	17,310,118	22,267,034
Scholarships and awards	23,862,517	21,379,139
	<u>\$ 133,237,061</u>	<u>\$ 135,972,796</u>

Note 5 – Permanently Restricted Net Assets

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

	2014	2013
Construction	\$ 18,239,010	\$ 16,175,623
Faculty/staff support	205,276,820	175,187,874
Institutional support	143,717,962	129,995,913
Research	34,864,477	31,444,926
Scholarships and awards	200,897,990	173,350,561
Other	25,922,927	21,278,461
	<u>\$ 628,919,186</u>	<u>\$ 547,433,358</u>

Note 6 – Net Assets Released From Restrictions

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

	2014	2013
Construction	\$ 6,439,544	\$ 9,737,148
Scholarships and awards	13,421,004	15,037,836
Research	8,411,034	7,907,074
Faculty/staff support	9,403,510	8,375,470
Other	9,344,929	10,690,087
	<u>\$ 47,020,021</u>	<u>\$ 51,747,615</u>

Note 7 – Pension Plan

The Foundation has a defined contribution (money-purchase) retirement plan covering substantially all employees. The Foundation's contributions to the plan are 5% of participants' salaries. In addition, the Foundation will match all contributions made by employees up to and including 5%. Contributions are limited to 10% of the total compensation paid to participants during the plan year. Participants' interests are immediately vested. Employer contributions to the plan were \$125,000 and \$130,000 in fiscal years 2014 and 2013, respectively.

Note 8 – Financial Instruments

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

Interest receivable

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

Contributions receivable

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

Note 9 – Fair Value Measurements

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

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

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

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

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

There were no investment transfers due to changes in the observability of significant inputs between Level 1 and Level 2 assets during the years ended June 30, 2014 and 2013. There were no transfers into or out of Level 3 assets for the years ended June 30, 2014 or 2013.

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:

2014	Assets			
	Level 1	Level 2	Level 3	Total
Equity Securities:				
United States	\$ 45,358,972	\$ 80,109	\$ -	\$ 45,439,081
International	19,144,040	-	3,026	19,147,066
REITs	3,435,843	-	-	3,435,843
Fixed Income:				
Government Debt Securities, U.S. (a)	599,858	22,780,913	-	23,380,771
Other Debt Securities	954,994	50,171	-	1,005,165
Commingled Funds:				
U.S. Equity (b)	19,372,274	1,218,790	-	20,591,064
International Equity (c)	23,713,925	81,350,750	-	105,064,675
U.S. Government Bonds (d)	2,519,618	19,851,211	-	22,370,829
Corporate Bonds (e)	23,679,136	130,992,874	-	154,672,010
Exchange-Traded Funds (f):				
Equity	9,886,063	-	-	9,886,063
Fixed Income	15,220,091	-	-	15,220,091
Other Partnerships:				
United States (g)	-	-	84,254,569	84,254,569
International (h)	-	-	51,148,318	51,148,318
Nonmarketable Alternatives (i)	-	-	126,478,530	126,478,530
Marketable Alternatives (j)	-	-	143,517,077	143,517,077
Money Market and Short-Term Investments	14,681,080	277	-	14,681,357
Total	\$ 178,565,894	\$ 256,325,095	\$ 405,401,520	\$ 840,292,509

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

- (a) This class includes U.S. Treasury securities managed to approximate the risk and return characteristics of the Barclays Capital U.S. Treasury OTR 5-year Index. Daily liquidity is available.
- (b) This class includes mutual funds and collective trust funds invested in the common stocks of U.S. companies. The holdings are benchmarked to or are similar in composition to the S&P 100 Index and the Russell 2000 Index. Daily redemptions are available with a one- to two-business day notice.
- (c) This class includes mutual funds and collective trust funds invested in the common stocks of international companies with approximately 48% in emerging markets funds and 38% in developed markets funds and 14% in globally focused natural resources. Benchmarks include the MSCI World ex-U.S. Index, MSCI Emerging Markets Index, S&P Frontier Markets Indices and S&P Global Custom Metals & Mining Index. Mutual funds that offer daily redemptions comprise about one-third of the assets. Approximately 8% of the assets are in a mutual fund that offers daily liquidity with a two-week notice requirement. The remaining funds can be redeemed semi-monthly with a two-business day notice requirement.
- (d) This class includes investments in a collective trust fund indexed to the Barclays U.S. Intermediate Government Bond Index. Daily redemptions are available with a two-business day notice.
- (e) This class includes investments in mutual funds and collective trust funds indexed to the Barclays High Yield Corporate Index, U.S. Credit Index and Intermediate Credit Index. The funds offer daily redemptions with approximately 60% of the assets subject to a two-business day notice requirement.
- (f) This class includes exchange-traded funds holding securities indexed to the FTSE Emerging Markets Index, the FTSE Global All-Cap Index and the Markit iBoxx USD Liquid Investment Grade Bond Index. Daily liquidity is available.
- (g) This class includes investments in limited partnerships that invest primarily in U.S. common stocks benchmarked to the S&P 500 Index. These partnerships may invest in securities outside the benchmark index, use futures and options, invest in private investments and engage in short selling. Liquidity may be restricted through the use of lock-up periods and notice requirements. Approximately 28% of the assets can be redeemed monthly with a five-business day notice. Quarterly redemptions are available for 65% of the assets with a 60-day notice. The remaining 7% of assets are in a partnership that allows annual redemptions of up to 20% of the balance with a 90-day notice requirement and requires a five-year withdrawal period to exit the fund.
- (h) This class includes investments in limited partnerships that invest primarily in international common stocks, including both developed and emerging markets and are benchmarked to the MSCI EAFE Index, the MSCI World Index and the MSCI EM Small Cap Index. Withdrawals are subject to notice requirements and may be subject to lock-up requirements. Redemption options range from semi-monthly to quarterly with notice requirements ranging from 7 to 30 days. Approximately 20% of assets have a lock-up, which expires in 2014.
- (i) This class includes investments through a limited partnership in multiple underlying private equity partnerships. The underlying investments are diversified by strategy, fund and vintage year. The General Partners of the underlying partnerships determine the timing of investments and distributions. Redemptions are only available to the extent of net cash distributions received from the General Partners of the underlying partnerships.
- (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. Subject to the liquidity terms of the underlying funds, the Foundation may request withdrawals monthly with a ten-day notice which may be waived by the General Partner. Approximately 2% of assets are in a hedge fund held outside of the limited partnership and are subject to a lock-up, which expires in 2016.

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the fiscal years ended June 30, 2014 and 2013:

	Equity Securities	Other Partnerships U.S.	Other Partnerships International	Nonmarketable Alternatives	Marketable Alternatives	Total
Balance, July 1, 2012	\$ 3,182	\$ 59,912,488	\$ 39,698,818	\$ 113,398,432	\$ 101,564,172	\$ 314,577,092
Purchases	-	1,824,649	11,813,333	1,300,063	11,084,746	26,022,791
Sales	(419)	(12,322,618)	(6,950,442)	(4,910,766)	(18,398,761)	(42,583,006)
Investment income	-	-	423,069	-	-	423,069
Unrealized gain	6,972	10,336,021	4,356,097	4,105,625	24,015,800	42,820,515
Realized gain (loss)	(6,860)	-	1,313,621	-	-	1,306,761
Balance, June 30, 2013	2,875	59,750,540	50,654,496	113,893,354	118,265,957	342,567,222
Purchases	-	9,924,835	4,698,528	-	15,134,619	29,757,982
Sales	(84,402)	(703,324)	(13,345,653)	(7,708,388)	(354,459)	(22,196,226)
Unrealized gain	84,553	15,282,518	5,166,596	20,293,564	10,470,960	51,298,191
Realized gain	-	-	3,974,351	-	-	3,974,351
Balance, June 30, 2014	\$ 3,026	\$ 84,254,569	\$ 51,148,318	\$ 126,478,530	\$ 143,517,077	\$ 405,401,520

Note 10 – 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 unrestricted net assets. Deficiencies were immaterial as of June 30, 2014 and 2013, respectively.

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

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The endowment's investments are diversified across asset classes that balance the Foundation's need for liquidity, preservation of purchasing power and risk tolerance.

Spending Policy – The Board has approved a spending policy whereby funds are transferred quarterly from endowment to the appropriate temporarily restricted or unrestricted operating fund. The amount of funds transferred out of endowment is computed by applying the spending rate of 5% in 2014 and 2013 to the 36-month average fair value as of the end of each quarter. This transfer is reflected on the Statement of Activities as an outflow of interest and dividends and net realized and unrealized gains on investments from the permanently restricted net asset classification.

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

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 14,324,110	\$ 628,919,186	\$ 643,243,296
Board-designated endowment funds	25,794,622	-	-	25,794,622
	<u>\$ 25,794,622</u>	<u>\$ 14,324,110</u>	<u>\$ 628,919,186</u>	<u>\$ 669,037,918</u>
2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 11,159,223	\$ 547,433,358	\$ 558,592,581
Board-designated endowment funds	22,569,711	-	-	22,569,711
	<u>\$ 22,569,711</u>	<u>\$ 11,159,223</u>	<u>\$ 547,433,358</u>	<u>\$ 581,162,292</u>

Changes in endowment net assets for the fiscal years ended June 30, 2014 and 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2012	\$ 23,080,429	\$ 9,546,719	\$ 495,266,902	\$ 527,894,050
Investment return:				
Interest and dividends	164,006	78,888	3,633,340	3,876,234
Net realized and unrealized gains on long-term investments	2,520,056	1,129,089	55,671,510	59,320,655
Total investment return	2,684,062	1,207,977	59,304,850	63,196,889
Contributions	4,643,068	670,599	13,537,888	18,851,555
Appropriation of endowment assets for expenditure	(7,837,848)	(266,072)	(20,676,282)	(28,780,202)
Endowment net assets, June 30, 2013	22,569,711	11,159,223	547,433,358	581,162,292
Investment return:				
Interest and dividends	143,364	79,306	3,975,031	4,197,701
Net realized and unrealized gains on long-term investments	3,362,370	1,862,713	76,281,747	81,506,830
Total investment return	3,505,734	1,942,019	80,256,778	85,704,531
Contributions	735,682	2,352,757	20,174,687	23,263,126
Appropriation of endowment assets for expenditure	(1,016,505)	(1,129,889)	(18,945,637)	(21,092,031)
Endowment net assets, June 30, 2014	\$ 25,794,622	\$ 14,324,110	\$ 628,919,186	\$ 669,037,918

Note 11 – Significant Concentrations

Pledges receivable

Five pledges approximate 54% and 47% of total contributions receivable at June 30, 2014 and 2013, respectively.

SUPPLEMENTAL SCHEDULES

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.
SCHEDULE OF ACTIVITIES BY DEVELOPMENT COUNCIL

Year ended June 30, 2014

	System	Fayetteville	Agriculture	Little Rock	Medical Sciences	Monticello	Pine Bluff	Arkansas Cancer Research Center	Batesville	Total
Revenues, gains and other support:										
Contributions	\$ 539,680	\$ 31,622,414	\$ 1,570,285	\$ 5,241,654	\$ 8,245,955	\$ 1,335,049	\$ 155,042	\$ 9,351,734	\$ 89,014	\$ 58,150,827
Interest and dividends	628,610	3,890,736	309,358	742,417	2,773,354	130,196	75,648	462,099	10,235	9,022,653
Net realized and unrealized gains on investments	1,441,057	49,928,193	2,077,852	7,782,271	24,870,000	1,765,300	609,180	3,500,087	148,334	92,122,274
Other	-	-	-	70,107	950	23,615	-	1,020	-	95,692
Total revenues, gains and other support	2,609,347	85,441,343	3,957,495	13,836,449	35,890,259	3,254,160	839,870	13,314,940	247,583	159,391,446
Expenses and losses:										
Program services:										
Construction	-	750,186	-	203,161	1,067,022	381,750	911	1,446,737	-	3,849,767
Research	-	6,707,472	1,840,583	32,274	2,574,818	-	-	4,346,738	-	15,501,885
Faculty/staff support	1,225,681	5,831,977	185,587	1,148,490	3,553,230	73,263	59,721	771,961	-	12,849,910
Scholarships and awards	160,047	6,846,865	55,039	1,044,547	1,084,519	575,377	178,901	3,400	60,034	10,008,729
Public/staff relations	77,437	310,877	243,625	204,002	900,133	27,522	34,057	161,908	11,158	1,970,719
Equipment	106,360	1,429,489	181,473	465,494	778,061	34,286	19,275	231,593	20,897	3,266,928
Sponsored programs	105,987	363,977	78,101	93,011	221,003	14,587	65,950	64,216	12,711	1,019,543
Other	451,104	8,713,594	343,761	1,084,072	1,197,872	93,652	82,868	468,117	5,040	12,440,080
Total program services	2,126,616	30,954,437	2,928,169	4,275,051	11,376,658	1,200,437	441,683	7,494,670	109,840	60,907,561
Supporting services:										
Management and general	1,332	141,405	4,816	154,630	77,891	2,104	6,592	18,210	-	406,980
Fundraising	13,069	295,566	3,527	358,583	206,790	10,549	61,986	398,281	2,491	1,350,842
Change in value of split-interest agreements	-	183,950	1,747	28,442	58,159	(12,774)	156	(65,850)	-	193,830
Provision for loss on uncollectible pledges	-	(41,669)	-	175	(107,450)	-	-	(155,000)	-	(303,944)
Total supporting services	14,401	579,252	10,090	541,830	235,390	(121)	68,734	195,641	2,491	1,647,708
Total expenses and losses	2,141,017	31,533,689	2,938,259	4,816,881	11,612,048	1,200,316	510,417	7,690,311	112,331	62,555,269
Change in net assets	468,330	53,907,654	1,019,236	9,019,568	24,278,211	2,053,844	329,453	5,624,629	135,252	96,836,177
Net assets, beginning of year	8,123,014	371,590,595	22,437,670	66,118,346	236,239,682	13,243,391	6,260,348	39,715,950	1,097,765	764,826,761
Net assets, end of year	\$ 8,591,344	\$ 425,498,249	\$ 23,456,906	\$ 75,137,914	\$ 260,517,893	\$ 15,297,235	\$ 6,589,801	\$ 45,340,579	\$ 1,233,017	\$ 861,662,938

See Independent Auditor's Report.

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

	System	Fayetteville	Agriculture	Little Rock	Medical Sciences	Monticello	Pine Bluff	Arkansas Cancer Research Center	Batesville	Total
Revenues, gains and other support:										
Contributions	\$ 460,789	\$ 30,481,839	\$ 1,971,961	\$ 4,045,635	\$ 15,830,605	\$ 533,498	\$ 795,906	\$ 7,672,221	\$ 112,892	\$ 61,905,346
Interest and dividends	572,236	3,658,492	298,391	664,746	2,751,619	127,782	67,253	479,536	9,128	8,629,183
Net realized and unrealized gains on investments	1,121,208	34,518,931	1,246,493	4,869,826	15,317,304	1,224,934	433,317	1,905,118	99,364	60,736,495
Other	-	-	-	66,656	775	28,975	-	3,490	-	99,896
Total revenues, gains and other support	2,154,233	68,659,262	3,516,845	9,646,863	33,900,303	1,915,189	1,296,476	10,060,365	221,384	131,370,920
Expenses and losses:										
Program services:										
Construction	40,000	6,737,128	-	593,194	1,201,917	1,268,639	9,040	-	-	9,849,918
Research	-	6,815,815	1,213,891	2,482	2,340,373	-	-	6,093,715	-	16,466,276
Faculty/staff support	2,816,007	5,855,585	112,666	1,017,554	3,324,397	92,802	59,364	930,173	750	14,209,298
Scholarships and awards	99,528	6,312,113	120,653	1,197,552	549,832	378,868	270,394	4,398	46,041	8,979,379
Public/staff relations	108,923	374,083	274,840	262,752	879,265	35,021	72,230	125,864	8,760	2,141,738
Equipment	116,200	1,084,346	495,857	408,839	709,175	35,099	10,100	1,511,513	11,355	4,382,484
Sponsored programs	30,443	415,166	159,888	51,675	211,089	5,452	38,119	158,276	17,251	1,087,359
Other	371,771	6,171,013	789,897	1,400,123	2,079,527	97,174	93,048	381,823	1,702	11,386,078
Total program services	3,582,872	33,765,249	3,167,692	4,934,171	11,295,575	1,913,055	552,295	9,205,762	85,859	68,502,530
Supporting services:										
Management and general	787	135,036	12,234	173,742	75,865	7,599	7,408	21,068	-	433,739
Fundraising	54,201	605,034	350	177,419	238,482	2,266	33,153	466,296	15,752	1,592,953
Change in value of split-interest agreements	-	(63,621)	1,725	27,622	90,884	(14,781)	141	(86,728)	-	(44,758)
Provision for loss on uncollectible pledges	-	3,577,547	8,300	629,132	2,325,663	-	-	5,130,002	-	11,670,644
Total supporting services	54,988	4,253,996	22,609	1,007,915	2,730,894	(4,916)	40,702	5,530,638	15,752	13,652,578
Total expenses and losses	3,637,860	38,019,245	3,190,301	5,942,086	14,026,469	1,908,139	592,997	14,736,400	101,611	82,155,108
Change in net assets	(1,483,627)	30,640,017	326,544	3,704,777	19,873,834	7,050	703,479	(4,676,035)	119,773	49,215,812
Net assets, beginning of year	9,606,641	340,950,578	22,111,126	62,413,569	216,365,848	13,236,341	5,556,869	44,391,985	977,992	715,610,949
Net assets, end of year	\$ 8,123,014	\$ 371,590,595	\$ 22,437,670	\$ 66,118,346	\$ 236,239,682	\$ 13,243,391	\$ 6,260,348	\$ 39,715,950	\$ 1,097,765	\$ 764,826,761

See Independent Auditor's Report.