

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES**

**JUNE 30, 2017 and 2016**

**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, 2017 and 2016, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated 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, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance 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 consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis rather than to present the results of operations of the individual development councils and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

A handwritten signature in cursive script that reads "Hogan Taylor LLP".

Fayetteville, Arkansas  
September 29, 2017

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

**June 30, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Contributions receivable, net	\$ 25,633,932	\$ 33,424,389
Interest receivable	2,480,640	2,021,882
Investments, at fair value	964,470,191	873,266,684
Cash value of life insurance	1,379,370	1,248,856
Land	552,025	668,025
	\$ 994,516,158	\$ 910,629,836
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 7,146,050	\$ 6,319,020
Annuity obligations	14,069,067	14,065,041
	21,215,117	20,384,061
Net assets:		
Unrestricted	105,674,264	106,811,150
Temporarily restricted	151,109,487	143,967,168
Permanently restricted	716,517,290	639,467,457
	973,301,041	890,245,775
Total net assets	\$ 994,516,158	\$ 910,629,836
Total liabilities and net assets	\$ 994,516,158	\$ 910,629,836

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 14,766,626	\$ 20,253,999	\$ 14,731,738	\$ 49,752,363
Interest and dividends (see Note 10)	4,323,089	5,884,293	269,199	10,476,581
Net realized and unrealized gains on investments (see Note 10)	4,593,465	23,867,966	62,277,470	90,738,901
Net assets released from restrictions	42,839,527	(42,839,527)	-	-
<b>Total revenues, gains and other support</b>	<b>66,522,707</b>	<b>7,166,731</b>	<b>77,278,407</b>	<b>150,967,845</b>
Expenses and losses:				
Program services:				
Construction	2,974,253	-	-	2,974,253
Research	14,272,974	-	-	14,272,974
Faculty/staff support	16,855,731	-	-	16,855,731
Scholarships and awards	11,816,083	-	-	11,816,083
Public/staff relations	2,253,515	-	-	2,253,515
Equipment	3,938,722	-	-	3,938,722
Sponsored programs	804,223	-	-	804,223
Other	11,602,722	-	-	11,602,722
<b>Total program services</b>	<b>64,518,223</b>	<b>-</b>	<b>-</b>	<b>64,518,223</b>
Supporting services:				
Management and general	675,571	-	-	675,571
Fundraising	2,342,191	-	-	2,342,191
Change in value of split-interest agreements	8,107	376	186,830	195,313
Provision for loss on uncollectible contributions	115,501	24,036	41,744	181,281
<b>Total supporting services</b>	<b>3,141,370</b>	<b>24,412</b>	<b>228,574</b>	<b>3,394,356</b>
<b>Total expenses and losses</b>	<b>67,659,593</b>	<b>24,412</b>	<b>228,574</b>	<b>67,912,579</b>
Change in net assets	(1,136,886)	7,142,319	77,049,833	83,055,266
Net assets, beginning of year	106,811,150	143,967,168	639,467,457	890,245,775
Net assets, end of year	<u>\$ 105,674,264</u>	<u>\$ 151,109,487</u>	<u>\$ 716,517,290</u>	<u>\$ 973,301,041</u>

See notes to consolidated financial statements.

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 16,167,039	\$ 22,292,964	\$ 22,624,270	\$ 61,084,273
Interest and dividends (see Note 10)	3,748,435	5,122,248	289,738	9,160,421
Net realized and unrealized gains (losses) on investments (see Note 10)	9,150,382	19,582,279	(40,527,944)	(11,795,283)
Net assets released from restrictions	44,178,823	(44,178,823)	-	-
Total revenues, gains and other support	73,244,679	2,818,668	(17,613,936)	58,449,411
Expenses and losses:				
Program services:				
Construction	8,144,010	-	-	8,144,010
Research	14,582,570	-	-	14,582,570
Faculty/staff support	13,622,705	-	-	13,622,705
Scholarships and awards	10,112,850	-	-	10,112,850
Public/staff relations	2,451,992	-	-	2,451,992
Equipment	4,971,395	-	-	4,971,395
Sponsored programs	908,546	-	-	908,546
Other	11,593,570	-	-	11,593,570
Total program services	66,387,638	-	-	66,387,638
Supporting services:				
Management and general	460,056	-	-	460,056
Fundraising	1,663,979	-	-	1,663,979
Change in value of split-interest agreements	1,069	176	557,336	558,581
Provision for loss on uncollectible contributions	531,038	213,161	315,333	1,059,532
Total supporting services	2,656,142	213,337	872,669	3,742,148
Total expenses and losses	69,043,780	213,337	872,669	70,129,786
Change in net assets	4,200,899	2,605,331	(18,486,605)	(11,680,375)
Net assets, beginning of year	102,610,251	141,361,837	657,954,062	901,926,150
Net assets, end of year	\$ 106,811,150	\$ 143,967,168	\$ 639,467,457	\$ 890,245,775

See notes to consolidated financial statements.

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended June 30, 2017 and 2016**

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 83,055,266	\$ (11,680,375)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Receipt of land	(949,900)	(54,000)
Change in value of split-interest agreements	195,313	558,581
Net realized and unrealized (gains) losses on investments	(90,738,901)	11,795,283
Losses on sale of land	89,561	-
Change in allowance for doubtful accounts	(3,000)	(60,800)
Change in unamortized discount of contributions receivable	(809,601)	(541,173)
Increase in cash value of life insurance	(130,514)	(52,300)
Interest restricted for long-term investment	(365,590)	(347,673)
Contributions restricted for long-term investment	(14,731,738)	(22,624,270)
Change in assets and liabilities:		
Contributions receivable	1,006,453	(3,613,293)
Interest receivable	(458,758)	792,981
Accounts payable	827,030	3,974,153
Net cash used in operating activities	(23,014,379)	(21,852,886)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	600,661,421	882,680,504
Purchase of investments	(601,126,026)	(883,347,816)
Proceeds from sale of land	976,339	186,000
Net cash provided by (used in) investing activities	511,734	(481,312)
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for:		
Investment in endowment	22,328,342	23,547,593
Investment subject to annuity obligations	1,943,883	389,995
Other financing activities:		
Interest restricted for reinvestment	365,590	347,673
Payment of annuity obligations	(2,135,170)	(1,951,063)
Net cash provided by financing activities	22,502,645	22,334,198
Net change in cash and cash equivalents at beginning and end of year	\$ -	\$ -

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

**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 System.

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 purpose of the Subsidiary is 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 and \$2.2 million in custodial and investment advisory fees during the years ended June 30, 2017 and 2016, respectively. These fees are netted against interest and dividends revenue in the Statements of Activities.

The consolidated financial statements include investments in other partnerships and alternative investments valued at approximately \$272 million (28% of net assets) and \$242 million (27% of net assets) as of June 30, 2017 and 2016, respectively. The fair values of these 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

The Foundation periodically receives contributions in a form other than cash or investments. If the Foundation receives a contribution of land, building or equipment, the contributed asset is recognized as an asset at its estimated fair value at the date of the gift, provided the value of the asset and its estimated useful life meets the Foundation's capitalization policy.

### 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.

### New accounting pronouncement

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities*

that Calculate Net Asset Value per Share (or its equivalent), which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. ASU 2015-07 also limits certain disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. ASU 2015-07 is to be applied retrospectively, and for nonpublic filers is effective for years beginning after December 15, 2016, with early adoption permitted.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The purpose of ASU 2016-14 is to amend existing financial reporting standards applicable to not-for-profit entities to improve the usefulness, relevance and clarity of information presented in financial statements and to enhance the information presented in the notes thereto. This new standard, which becomes effective for fiscal years beginning after December 15, 2017. The Foundation is evaluating the impact this standard will have on its financial statements and related disclosures.

## Note 2 – Contributions Receivable

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

	2017	2016
Due in less than one year	\$ 10,584,039	\$ 8,676,171
Due in one to five years	16,200,588	26,311,973
Due in more than five years	842,059	1,241,599
	<u>27,626,686</u>	<u>36,229,743</u>
Less: allowance for doubtful accounts	(776,000)	(779,000)
Unamortized discount	(1,216,754)	(2,026,354)
	<u>(1,992,754)</u>	<u>(2,805,354)</u>
	<u>\$ 25,633,932</u>	<u>\$ 33,424,389</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, 2017 and 2016, were \$432,970 and \$439,150, respectively, including interest which ranges from 3% to 11%.

Aggregate annual maturities of annuity obligations at June 30, 2017, are as follows:

Year	Amount
2018	\$ 1,252,121
2019	1,166,121
2020	1,142,778
2021	1,069,682
2022	890,888
Thereafter	<u>8,547,477</u>
	<u>\$ 14,069,067</u>

#### Note 4 – Temporarily Restricted Net Assets

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

	2017	2016
Construction	\$ 31,358,241	\$ 34,629,957
Faculty/staff support	22,675,162	21,082,901
Institutional support	48,045,884	41,983,722
Research	14,989,845	15,334,703
Scholarships and awards	34,040,355	30,935,885
	<u>\$ 151,109,487</u>	<u>\$ 143,967,168</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:

	2017	2016
Construction	\$ 21,958,782	\$ 19,811,390
Faculty/staff support	244,059,318	219,876,472
Institutional support	149,609,513	135,344,957
Research	38,702,172	32,679,210
Scholarships and awards	235,459,742	208,418,645
Other	26,727,763	23,336,783
	<u>\$ 716,517,290</u>	<u>\$ 639,467,457</u>

#### Note 6 – Net Assets Released From Restrictions

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

	2017	2016
Construction	\$ 2,827,133	\$ 7,698,842
Faculty/staff support	8,483,709	8,043,283
Scholarships and awards	11,301,798	9,740,554
Research	10,707,655	8,549,980
Other	9,519,232	10,146,164
	<u>\$ 42,839,527</u>	<u>\$ 44,178,823</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 \$139,645 and \$135,140 in fiscal years 2017 and 2016, respectively.

## **Note 8 – Financial Instruments**

The following methods and assumptions were used by the Foundation in estimating the fair value of its financial instruments:

### 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**

### *External Investment Pools*

The University of Arkansas Foundation participates in two external investment pools which are sponsored by the University of Arkansas Board of Trustees and the University of Arkansas Foundation Board of Directors and managed by the University of Arkansas Foundation and Cambridge Associates, LLC.

At June 30, 2017, eight University of Arkansas System campuses and four foundations participated in the external investment pools, whose net assets totaled approximately \$1.9 billion. The University of Arkansas Foundation owns approximately 48.02% of the total return pool and 55.09% of the intermediate pool. The investment disclosures below relate to the Foundation's portion of the pools.

### *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 or liability 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, 2017 and 2016. There were no material transfers into or out of Level 3 assets for the years ended June 30, 2017 and 2016.

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

2017	Assets			Total
	Level 1	Level 2	Level 3	
Equity securities:				
United States (a)	\$ 66,390,044	\$ -	\$ -	\$ 66,390,044
International (a)	67,064,990	-	2,959	67,067,949
REITs (a)	3,010,854	-	-	3,010,854
Fixed income:				
U.S. government debt securities (b)	612,481	54,793,614	-	55,406,095
Other debt securities (c)	607,519	41,858,756	43,626	42,509,901
Commingled funds:				
U.S. equity (d)	21,926,903	-	-	21,926,903
International equity (e)	20,517,874	83,871,084	-	104,388,958
U.S. government bonds (f)	2,091,509	-	-	2,091,509
Corporate bonds (h)	5,493,085	-	-	5,493,085
Exchange-traded funds:				
Equity (i)	12,606,383	-	-	12,606,383
Fixed income (j)	135,043,076	-	-	135,043,076
Other partnerships:				
United States (k)	-	-	119,670,557	119,670,557
International (l)	-	-	34,792,289	34,792,289
Nonmarketable alternatives (m)	-	-	126,360,738	126,360,738
Marketable alternatives (n)	-	-	145,540,924	145,540,924
Money market and short-term investments (o)	22,170,926	-	-	22,170,926
<b>Total</b>	<b>\$ 357,535,644</b>	<b>\$ 180,523,454</b>	<b>\$ 426,411,093</b>	<b>\$ 964,470,191</b>

2016	Assets			
	Level 1	Level 2	Level 3	Total
Equity securities:				
United States (a)	\$ 52,467,243	\$ -	\$ -	\$ 52,467,243
International (a)	58,196,880	-	153,201	58,350,081
REITs (a)	3,013,996	-	-	3,013,996
Fixed income:				
U.S. government debt securities (b)	834,046	43,466,829	-	44,300,875
Other debt securities (c)	629,432	31,426,438	33,923	32,089,793
Commingled funds:				
U.S. equity (d)	21,339,916	-	-	21,339,916
International equity (e)	25,563,487	67,955,369	-	93,518,856
U.S. government bonds (f)	1,979,341	27,065,931	-	29,045,272
Non U.S. government bonds (g)	14,014,444	-	-	14,014,444
Corporate bonds (h)	14,287,466	-	-	14,287,466
Exchange-traded funds:				
Equity (i)	17,542,673	-	-	17,542,673
Fixed income (j)	82,765,020	-	-	82,765,020
Other partnerships:				
United States (k)	-	-	105,914,387	105,914,387
International (l)	-	-	27,987,223	27,987,223
Nonmarketable alternatives (m)	-	-	115,902,230	115,902,230
Marketable alternatives (n)	-	-	125,696,969	125,696,969
Money market and short-term investments (o)				
	35,030,107	133	-	35,030,240
Total	\$ 327,664,051	\$ 169,914,700	\$ 375,687,933	\$ 873,266,684

- (a) These classes include common stocks traded in U.S. and international markets. Daily liquidity is available.
- (b) This class includes U.S. Treasury securities managed to approximate the risk and return characteristics of the ten-year Barclays U.S. Treasury Index. Daily liquidity is available.
- (c) This class includes investment grade corporate bonds, mortgage-backed and asset-backed debt securities.
- (d) This class includes mutual funds invested in the common stocks of U.S. companies. The holdings are benchmarked to the S&P 500 Index. Daily liquidity is available.
- (e) This class includes mutual funds and collective trust funds invested in the common stocks of international companies with approximately 48% in emerging markets funds, 47% in developed markets funds and 5% in global 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 20% of the assets. The other half is comprised of trust funds that can be redeemed daily with a one-business day notice requirement.
- (f) 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.
- (g) This class includes investment in a mutual fund indexed to the JP Morgan Government Bond Index-Emerging Markets Global Diversified Index. Daily liquidity is available.
- (h) This class includes investment in a mutual fund indexed to the Barclays High Yield Corporate Index. Daily redemption is available.
- (i) This class includes exchange traded funds holding securities indexed to the Energy Select Sector Index. Daily liquidity is available.
- (j) This class includes exchange-traded funds holding securities indexed to the Bloomberg Barclays U.S. 5-10 Year Corporate Bond Index, the Bloomberg Barclays U.S. 1-5 Year Corporate Bond Index, the Bloomberg Barclays U.S. Mortgage-Backed Securities Index, the ICE U.S. Treasury 3-7 Year Bond Index and the JPM EMBI Global Core Index. Daily liquidity is available.

- (k) 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 half of the assets have monthly liquidity subject to notice periods of 5 to 25 business days. Quarterly redemptions are available for the other half of the assets with a 60-day notice requirement.
- (l) 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 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 monthly to quarterly with notice requirements of 30 days.
- (m) 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. Unfunded commitments to the partnership totaled approximately \$141.8 million as of June 30, 2017.
- (n) 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 ten days' notice which may be waived by the General Partner. Approximately 4% of these assets are in a hedge fund held outside of the limited partnership which has quarterly liquidity subject to a 30-day notice requirement. Unfunded commitments to the partnership totaled approximately \$2.6 million as of June 30, 2017.
- (o) This class includes investments in a money market mutual fund which invests in a portfolio of obligations of the U.S. Government and its agencies or instrumentalities. Daily liquidity is available.

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, 2017 and 2016:

	Equity Securities International	Other Debt Securities	Other Partnerships U.S.	Other Partnerships International	Nonmarketable Alternatives	Marketable Alternatives	Total
Balance, June 30, 2015	\$ 2,973	\$ -	\$ 90,578,550	\$ 30,878,023	\$ 115,893,947	\$ 128,586,309	\$ 365,939,802
Purchases	38,880	33,102	21,408,686	-	-	6,232,306	27,712,974
Sales	-	-	(10,800,928)	-	(2,854,491)	(9,610,121)	(23,265,540)
Unrealized gain (loss)	111,348	821	1,046,766	(2,890,800)	2,862,774	488,475	1,619,384
Realized gain	-	-	3,681,313	-	-	-	3,681,313
Balance, June 30, 2016	153,201	33,923	105,914,387	27,987,223	115,902,230	125,696,969	375,687,933
Purchases	-	-	-	-	-	23,144,818	23,144,818
Sales	(173,517)	-	(4,801,718)	-	(7,346,629)	(13,765,358)	(26,087,222)
Unrealized gain	8,109	9,703	18,473,378	6,805,066	17,805,137	10,464,495	53,565,888
Realized gain	15,166	-	84,510	-	-	-	99,676
Balance, June 30, 2017	\$ 2,959	\$ 43,626	\$ 119,670,557	\$ 34,792,289	\$ 126,360,738	\$ 145,540,924	\$ 426,411,093

## 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 temporarily or permanently restricted net assets, based on donor agreements. Deficiencies were immaterial as of June 30, 2017. As of June 30, 2016, the Foundation has approximately \$7.5 million comprising 546 donor accounts that are considered deficient.

**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 2017 and 2016,

to the 36-month average fair value as of the end of each quarter. This transfer is reflected in the Statements 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:

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 24,096,395	\$ 691,511,647	\$ 715,608,042
Board-designated endowment funds	30,107,878	-	-	30,107,878
	<u>\$ 30,107,878</u>	<u>\$ 24,096,395</u>	<u>\$ 691,511,647</u>	<u>\$ 745,715,920</u>
2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 19,628,106	\$ 611,382,055	\$ 631,010,161
Board-designated endowment funds	25,993,312	-	-	25,993,312
	<u>\$ 25,993,312</u>	<u>\$ 19,628,106</u>	<u>\$ 611,382,055</u>	<u>\$ 657,003,473</u>

Changes in endowment, excluding contributions receivable, net assets for the fiscal years ended June 30, 2017 and 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2015	\$ 26,227,490	\$ 16,409,803	\$ 633,597,722	\$ 676,235,015
Investment return:				
Interest and dividends	242,813	128,597	4,240,361	4,611,771
Net realized and unrealized losses on long-term investments	(611,557)	(341,871)	(10,515,523)	(11,468,951)
Total investment return	(368,744)	(213,274)	(6,275,162)	(6,857,180)
Contributions	1,221,753	4,157,083	18,168,757	23,547,593
Appropriation of endowment assets for expenditure	(1,087,187)	(725,506)	(34,109,262)	(35,921,955)
Endowment net assets, June 30, 2016	25,993,312	19,628,106	611,382,055	657,003,473

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment return:				
Interest and dividends	186,805	183,452	4,898,342	5,268,599
Net realized and unrealized gains on long-term investments	3,407,801	3,211,031	90,139,359	96,758,191
Total investment return	3,594,606	3,394,483	95,037,701	102,026,790
Contributions	1,556,220	2,050,178	18,721,944	22,328,342
Appropriation of endowment assets for expenditure	(1,036,260)	(976,372)	(33,630,053)	(35,642,685)
Endowment net assets, June 30, 2017	<u>\$ 30,107,878</u>	<u>\$ 24,096,395</u>	<u>\$ 691,511,647</u>	<u>\$ 745,715,920</u>

#### **Note 11 – Concentrations**

The Foundation has certain concentrations of credit risk with financial institutions in the form of uninsured cash, time deposits and other short-term investments that typically exceed Federal Deposit Insurance Corporation limits. For purposes of evaluating credit risk, the stability of financial institutions conducting business with the Foundation is periodically reviewed and management of the Foundation believes that credit risk related to these balances is immaterial.

The Foundation has two donors with pledges receivable, net of allowance, which represent 37% and 38% of net pledges receivable as of June 30, 2017 and 2016, respectively.

#### **Note 12 – Subsequent Event**

In September 2017, the University of Arkansas Fayetteville Campus received a \$120 million contribution to establish the School of Art. Of the \$120 million contribution, \$10 million is designated for the renovation of the Fine Arts Center, which will be the School of Art's headquarters, and the remaining \$110 million will be held and managed by the Foundation as an endowment for the School of Art. Management has evaluated subsequent events through September 29, 2017, the date the consolidated financial statements were available to be issued noting no additional events.

**SUPPLEMENTAL SCHEDULES**

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**  
**SCHEDULE OF ACTIVITIES BY DEVELOPMENT COUNCIL**  
**Year ended June 30, 2017**

	System	Fayetteville	Agriculture	Little Rock	Medical Sciences	Monticello	Pine Bluff	Winthrop P. Rockefeller Cancer Institute	Batesville	Morrilton	Total
Revenues, gains and other support:											
Contributions	\$ 554,992	\$ 22,227,880	\$ 1,769,521	\$ 5,057,769	\$ 9,373,154	\$ 463,220	\$ 1,400,979	\$ 8,666,263	\$ 53,502	\$ 185,083	\$ 49,752,363
Interest and dividends	662,490	4,616,653	283,868	851,032	3,053,872	149,358	120,439	712,718	10,350	15,801	10,476,581
Net realized and unrealized gains (losses) on investments	1,574,872	49,881,651	1,582,937	7,349,387	24,698,458	1,753,696	625,947	3,140,540	146,786	(15,373)	90,738,901
<b>Total revenues, gains and other support</b>	<b>2,792,354</b>	<b>76,726,184</b>	<b>3,636,326</b>	<b>13,258,188</b>	<b>37,125,484</b>	<b>2,366,274</b>	<b>2,147,365</b>	<b>12,519,521</b>	<b>210,638</b>	<b>185,511</b>	<b>150,967,845</b>
Expenses and losses:											
Program services:											
Construction	-	1,244,921	-	257,920	314,544	175,608	-	157,655	-	823,605	2,974,253
Research	-	4,173,453	1,482,499	24,352	1,842,580	-	-	6,750,090	-	-	14,272,974
Faculty/staff support	1,458,088	11,092,564	87,381	951,647	2,536,058	94,697	15,388	619,908	-	-	16,855,731
Scholarships and awards	172,179	8,197,095	58,870	1,714,738	827,574	521,992	247,803	-	61,340	14,492	11,816,083
Public/staff relations	90,126	475,935	106,956	252,621	968,973	56,628	61,245	223,219	15,155	2,657	2,253,515
Equipment	368,944	840,160	72,962	715,995	1,180,949	13,779	15,322	729,963	148	500	3,938,722
Sponsored programs	176,004	346,590	80,762	38,533	84,931	6,503	3,462	57,557	4,000	5,881	804,223
Other	323,428	5,352,685	112,132	1,385,893	1,358,271	105,181	227,689	2,728,937	3,341	5,165	11,602,722
<b>Total program services</b>	<b>2,588,769</b>	<b>31,723,403</b>	<b>2,001,562</b>	<b>5,341,699</b>	<b>9,113,880</b>	<b>974,388</b>	<b>570,909</b>	<b>11,267,329</b>	<b>83,984</b>	<b>852,300</b>	<b>64,518,223</b>
Supporting services:											
Management and general	1,152	233,575	1,018	24,487	304,575	5,857	1,042	103,739	126	-	675,571
Fundraising	26,619	1,461,172	323	247,197	183,790	24,487	89,323	296,522	6,723	6,035	2,342,191
Change in value of split-interest agreements	-	181,483	1,950	27,827	64,758	(19,357)	155	(61,503)	-	-	195,313
Provision for loss on uncollectible pledges	-	34,000	-	61,960	43,453	-	-	38,868	-	3,000	181,281
<b>Total supporting services</b>	<b>27,771</b>	<b>1,910,230</b>	<b>3,291</b>	<b>361,471</b>	<b>596,576</b>	<b>10,987</b>	<b>90,520</b>	<b>377,626</b>	<b>6,849</b>	<b>9,035</b>	<b>3,394,356</b>
<b>Total expenses and losses</b>	<b>2,616,540</b>	<b>33,633,633</b>	<b>2,004,853</b>	<b>5,703,170</b>	<b>9,710,456</b>	<b>985,375</b>	<b>661,429</b>	<b>11,644,955</b>	<b>90,833</b>	<b>861,335</b>	<b>67,912,579</b>
Change in net assets	175,814	43,092,551	1,631,473	7,555,018	27,415,028	1,380,899	1,485,936	874,566	119,805	(675,824)	83,055,266
Net assets, beginning of year	14,087,252	427,450,956	22,578,901	78,151,880	267,718,103	15,342,384	8,416,727	54,182,137	1,158,556	1,158,879	890,245,775
<b>Net assets, end of year</b>	<b>\$ 14,263,066</b>	<b>\$ 470,543,507</b>	<b>\$ 24,210,374</b>	<b>\$ 85,706,898</b>	<b>\$ 295,133,131</b>	<b>\$ 16,723,283</b>	<b>\$ 9,902,663</b>	<b>\$ 55,056,703</b>	<b>\$ 1,278,361</b>	<b>\$ 483,055</b>	<b>\$ 973,301,041</b>

See Independent Auditor's Report.

**THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.**  
**SCHEDULE OF ACTIVITIES BY DEVELOPMENT COUNCIL**  
**Year ended June 30, 2016**

	System	Fayetteville	Agriculture	Little Rock	Medical Sciences	Monticello	Pine Bluff	Winthrop P. Rockefeller Cancer Institute	Batesville	Morrilton	Total
<b>Revenues, gains and other support:</b>											
Contributions	\$ 5,587,763	\$ 24,203,078	\$ 1,762,064	\$ 6,715,621	\$ 10,050,878	\$ 696,300	\$ 1,738,243	\$ 9,066,056	\$ 75,666	\$ 1,188,604	\$ 61,084,273
Interest and dividends	573,489	4,104,368	254,483	744,255	2,674,084	128,435	90,542	569,967	10,073	10,725	9,160,421
Net realized and unrealized gains (losses) on investments	1,099,608	(6,865,373)	(235,639)	(1,348,725)	(3,679,309)	(342,748)	(37,589)	(380,113)	(28,779)	23,384	(11,795,283)
<b>Total revenues, gains and other support</b>	<b>7,260,860</b>	<b>21,442,073</b>	<b>1,780,908</b>	<b>6,111,151</b>	<b>9,045,653</b>	<b>481,987</b>	<b>1,791,196</b>	<b>9,255,910</b>	<b>56,960</b>	<b>1,222,713</b>	<b>58,449,411</b>
<b>Expenses and losses:</b>											
<b>Program services:</b>											
Construction	-	1,336,968	-	466,933	5,576,930	45,703	-	700,000	17,476	-	8,144,010
Research	-	4,134,780	1,540,702	138,384	2,773,637	-	-	5,995,067	-	-	14,582,570
Faculty/staff support	1,456,758	6,684,837	115,107	903,582	3,082,606	112,980	39,256	1,227,579	-	-	13,622,705
Scholarships and awards	143,778	7,142,353	60,324	1,243,687	863,015	374,703	178,407	41,334	58,474	6,775	10,112,850
Public/staff relations	96,492	649,914	269,156	326,590	873,932	39,212	48,951	131,384	12,819	3,542	2,451,992
Equipment	108,019	1,499,381	57,148	304,248	1,244,514	80,595	-	1,649,368	28,122	-	4,971,395
Sponsored programs	216,228	349,672	14,544	49,601	115,644	4,427	2,991	136,884	16,055	2,500	908,546
Other	381,986	7,577,325	292,671	1,369,017	1,082,044	139,687	90,750	611,015	9,345	39,730	11,593,570
<b>Total program services</b>	<b>2,403,261</b>	<b>29,375,230</b>	<b>2,349,652</b>	<b>4,802,042</b>	<b>15,612,322</b>	<b>797,307</b>	<b>360,355</b>	<b>10,492,631</b>	<b>142,291</b>	<b>52,547</b>	<b>66,387,638</b>
<b>Supporting services:</b>											
Management and general	1,552	266,656	4,632	35,845	69,395	9,694	268	72,014	-	-	460,056
Fundraising	25,077	391,962	434	318,602	460,813	48,147	80,967	318,502	8,188	11,287	1,663,979
Change in value of split-interest agreements	-	443,350	1,750	28,586	61,840	13,765	155	9,135	-	-	558,581
Provision for loss on uncollectible pledges	-	262,711	-	339,078	435,843	-	-	21,900	-	-	1,059,532
<b>Total supporting services</b>	<b>26,629</b>	<b>1,364,679</b>	<b>6,816</b>	<b>722,111</b>	<b>1,027,891</b>	<b>71,606</b>	<b>81,390</b>	<b>421,551</b>	<b>8,188</b>	<b>11,287</b>	<b>3,742,148</b>
<b>Total expenses and losses</b>	<b>2,429,890</b>	<b>30,739,909</b>	<b>2,356,468</b>	<b>5,524,153</b>	<b>16,640,213</b>	<b>868,913</b>	<b>441,745</b>	<b>10,914,182</b>	<b>150,479</b>	<b>63,834</b>	<b>70,129,786</b>
<b>Change in net assets</b>	<b>4,830,970</b>	<b>(9,297,836)</b>	<b>(575,560)</b>	<b>586,998</b>	<b>(7,594,560)</b>	<b>(386,926)</b>	<b>1,349,451</b>	<b>(1,658,272)</b>	<b>(93,519)</b>	<b>1,158,879</b>	<b>(11,680,375)</b>
<b>Net assets, beginning of year</b>	<b>9,256,282</b>	<b>436,748,792</b>	<b>23,154,461</b>	<b>77,564,882</b>	<b>275,312,663</b>	<b>15,729,310</b>	<b>7,067,276</b>	<b>55,840,409</b>	<b>1,252,075</b>	<b>-</b>	<b>901,926,150</b>
<b>Net assets, end of year</b>	<b>\$ 14,087,252</b>	<b>\$ 427,450,956</b>	<b>\$ 22,578,901</b>	<b>\$ 78,151,880</b>	<b>\$ 267,718,103</b>	<b>\$ 15,342,384</b>	<b>\$ 8,416,727</b>	<b>\$ 54,182,137</b>	<b>\$ 1,158,556</b>	<b>\$ 1,158,879</b>	<b>\$ 890,245,775</b>

See Independent Auditor's Report.