

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

JUNE 30, 2018 and 2017

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, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 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, 2018 and 2017, 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 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 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.

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

Fayetteville, Arkansas

October 1, 2018

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

June 30, 2018 and 2017

	2018	2017
Assets		
Contributions receivable, net	\$ 27,274,658	\$ 25,633,932
Interest receivable	2,983,595	2,480,640
Investments, at fair value	1,164,638,882	964,470,191
Cash value of life insurance	1,492,384	1,379,370
Land	257,025	552,025
Total assets	<u>\$ 1,196,646,544</u>	<u>\$ 994,516,158</u>
 Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 2,405,368	\$ 7,146,050
Annuity obligations	15,457,664	14,069,067
Total liabilities	17,863,032	21,215,117
 Net assets:		
Unrestricted	106,304,205	105,674,264
Temporarily restricted	178,339,914	151,109,487
Permanently restricted	894,139,393	716,517,290
Total net assets	<u>1,178,783,512</u>	<u>973,301,041</u>
Total liabilities and net assets	<u>\$ 1,196,646,544</u>	<u>\$ 994,516,158</u>

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 16,299,843	\$ 41,104,309	\$ 130,957,194	\$ 188,361,346
Interest and dividends (see Note 10)	4,103,381	6,162,214	462,539	10,728,134
Net realized and unrealized gains on investments (see Note 10)	5,025,739	25,782,393	45,845,308	76,653,440
Net assets released from restrictions	45,394,437	(45,394,437)	-	-
Total revenues, gains and other support	70,823,400	27,654,479	177,265,041	275,742,920
Expenses and losses:				
Program services:				
Construction	8,000,470	-	-	8,000,470
Research	12,463,183	-	-	12,463,183
Faculty/staff support	17,995,917	-	-	17,995,917
Scholarships and awards	13,775,331	-	-	13,775,331
Public/staff relations	1,788,150	-	-	1,788,150
Equipment	2,709,416	-	-	2,709,416
Sponsored programs	933,788	-	-	933,788
Other	8,968,000	-	-	8,968,000
Total program services	66,634,255	-	-	66,634,255
Supporting services:				
Management and general	944,028	-	-	944,028
Fundraising	2,275,867	-	-	2,275,867
Change in value of split-interest agreements	8,809	759	(432,572)	(423,004)
Provision for loss on uncollectible contributions	330,500	423,293	75,510	829,303
Total supporting services	3,559,204	424,052	(357,062)	3,626,194
Total expenses and losses	70,193,459	424,052	(357,062)	70,260,449
Change in net assets	629,941	27,230,427	177,622,103	205,482,471
Net assets, beginning of year	105,674,264	151,109,487	716,517,290	973,301,041
Net assets, end of year	\$ 106,304,205	\$ 178,339,914	\$ 894,139,393	\$ 1,178,783,512

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)	-	-
Total revenues, gains and other support	66,522,707	7,166,731	77,278,407	150,967,845
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
Total program services	64,518,223	-	-	64,518,223
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
Total supporting services	3,141,370	24,412	228,574	3,394,356
Total expenses and losses	67,659,593	24,412	228,574	67,912,579
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	\$ 105,674,264	\$ 151,109,487	\$ 716,517,290	\$ 973,301,041

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 205,482,471	\$ 83,055,266
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Receipt of land	-	(949,900)
Change in value of split-interest agreements	(423,004)	195,313
Net realized and unrealized gains on investments	(76,653,440)	(90,738,901)
Losses on sale of land	194,222	89,561
Change in allowance for doubtful accounts	134,500	(3,000)
Change in unamortized discount of contributions receivable	258,391	(809,601)
Increase in cash value of life insurance	(113,014)	(130,514)
Interest restricted for long-term investment	(372,559)	(365,590)
Contributions restricted for long-term investment	(130,957,194)	(14,731,738)
Change in assets and liabilities:		
Contributions receivable	(14,617,312)	1,006,453
Interest receivable	(502,955)	(458,758)
Accounts payable	(4,740,682)	827,030
	(22,310,576)	(23,014,379)
Cash Flows from Investing Activities		
Proceeds from sale of investments	660,340,535	600,661,421
Purchase of investments	(783,855,786)	(601,126,026)
Proceeds from sale of land	100,778	976,339
	(123,414,473)	511,734
Cash Flows from Financing Activities		
Proceeds from contributions restricted for:		
Investment in endowment	143,540,889	22,328,342
Investment subject to annuity obligations	4,005,868	1,943,883
Other financing activities:		
Interest restricted for reinvestment	372,559	365,590
Payment of annuity obligations	(2,194,267)	(2,135,170)
	145,725,049	22,502,645
Net cash provided by financing activities	145,725,049	22,502,645
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, 2018 and 2017

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 (GAAP) 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.

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 \$2.6 and \$2.3 million in custodial and investment advisory fees during the years ended June 30, 2018 and 2017, 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 \$356 million (30% of net assets) and \$272 million (28% of net assets) as of June 30, 2018 and 2017, 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 pronouncements

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.

The Foundation adopted the applicable ASU 2015-07 and has concluded that the adoption did not have a significant impact on the Foundation's financial statements as the ASU primarily simplifies disclosures and reporting presentation.

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, is not expected to have a material impact on the recording or measurement of amounts presented therein.

Subsequent event

Management has evaluated subsequent events through October 1, 2018, the date the consolidated financial statements were available to be issued.

Note 2 – Contributions Receivable

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

	2018	2017
Due in less than one year	\$ 12,083,545	\$ 10,584,039
Due in one to five years	17,137,757	16,200,588
Due in more than five years	439,000	842,059
	29,660,302	27,626,686
Less: Allowance for doubtful accounts	(910,500)	(776,000)
Unamortized discount	(1,475,144)	(1,216,754)
	(2,385,644)	(1,992,754)
	<u>\$ 27,274,658</u>	<u>\$ 25,633,932</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, 2018 and 2017, were \$469,910 and \$432,970, respectively, including interest which ranges from 3% to 11%.

Aggregate annual maturities of annuity obligations at June 30, 2018, are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 1,396,796
2020	1,378,439
2021	1,184,590
2022	1,097,819
2023	1,039,370
Thereafter	<u>9,360,650</u>
	<u>\$ 15,457,664</u>

Note 4 – Temporarily Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Construction	\$ 46,759,357	\$ 31,358,241
Faculty/staff support	25,707,783	22,675,162
Institutional support	54,841,259	48,045,884
Research	14,963,337	14,989,845
Scholarships and awards	36,068,178	34,040,355
	<u>\$ 178,339,914</u>	<u>\$ 151,109,487</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:

	<u>2018</u>	<u>2017</u>
Construction	\$ 23,128,903	\$ 21,958,782
Faculty/staff support	275,931,988	244,059,318
Institutional support	202,390,907	149,609,513
Research	42,140,551	38,702,172
Scholarships and awards	313,964,949	235,459,742
Other	36,582,095	26,727,763
	<u>\$ 894,139,393</u>	<u>\$ 716,517,290</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:

	2018	2017
Construction	\$ 4,476,089	\$ 2,827,133
Faculty/staff support	9,946,676	8,483,709
Scholarships and awards	13,178,304	11,301,798
Research	8,959,395	10,707,655
Other	8,833,973	9,519,232
	<u>\$ 45,394,437</u>	<u>\$ 42,839,527</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 \$137,000 and \$139,645 in fiscal years 2018 and 2017, 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, 2018, ten University of Arkansas System campuses and four foundations participated in the external investment pools, whose net assets totaled approximately \$2.1 billion. The University of Arkansas Foundation owns approximately 56.37% of the total return pool and 42.65% of the intermediate pool. The investment disclosures below relate to the Foundation's portion of the pools.

Fair Value Measurements

The FASB 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.

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 transfers into or out of Level 3 assets for the years ended June 30, 2018 and 2017.

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:

2018	Assets			
	Level 1	Level 2	NAV*	Total
Equity securities:				
United States (a)	\$ 88,345,365	\$ 24,949	\$ -	\$ 88,370,314
International (a)	51,482,511	-	-	51,482,511
REITs (a)	3,500,734	-	-	3,500,734
Fixed income:				
U.S. government debt securities (b)	1,315,713	65,197,725	-	66,513,438
Other debt securities (c)	311,508	16,734,360	-	17,045,868
Commingled funds:				
U.S. equity (d)	2,444,562	-	-	2,444,562
International equity (e)	53,843,465	115,092,419	-	168,935,884
U.S. government bonds (f)	2,409,926	-	-	2,409,926
Corporate bonds (g)	6,367,278	-	-	6,367,278
Exchange-traded funds:				
Equity (h)	627,178	-	-	627,178
Fixed income (i)	137,473,443	-	-	137,473,443
Other partnerships:				
United States (j)	-	-	146,197,170	146,197,170
International (k)	-	-	41,891,175	41,891,175
Nonmarketable alternatives (l)	-	-	182,739,653	182,739,653
Marketable alternatives (m)	-	-	173,402,084	173,402,084
Money market and short-term investments (n)	70,823,461	4,414,203	-	75,237,664
Total	\$ 418,945,144	\$ 201,463,656	\$ 544,230,082	\$ 1,164,638,882

2017	Assets			
	Level 1	Level 2	NAV*	Total
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 (g)	5,493,085	-	-	5,493,085
Exchange-traded funds:				
Equity (h)	12,606,383	-	-	12,606,383
Fixed income (i)	135,043,076	-	-	135,043,076
Other partnerships:				
United States (j)	-	-	119,670,557	119,670,557
International (k)	-	-	34,792,289	34,792,289
Nonmarketable alternatives (l)	-	-	126,360,738	126,360,738
Marketable alternatives (m)	-	-	145,540,924	145,540,924
Money market and short-term investments (n)	22,170,926	-	-	22,170,926
Total	\$ 357,535,644	\$ 180,523,454	\$ 426,411,093	\$ 964,470,191

* In accordance with Subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented on the consolidated statements of financial position.

- (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 primarily managed to approximate the risk and return characteristics of the five-year Bloomberg 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 common stocks with approximately 32% in emerging markets funds, 48% in developed markets funds and 20% in global natural resources. Benchmarks include the MSCI World ex U.S. Index, MSCI Emerging Markets Index, S&P Frontier Markets Indices, S&P Global Custom Metals & Mining Index and NYSE Arca Gold Miners Index. Mutual funds that offer daily redemptions comprise about 44% of the assets. Trust funds hold 56% of the assets with 47% in funds that can be redeemed daily with a one business day notice requirement and 9% requiring a 30-day notice.
- (f) This class includes mutual fund investments indexed to the Bloomberg Barclays U.S. Government Bond Index. Daily liquidity is available.
- (g) This class includes mutual funds indexed to the Bloomberg Barclays US Government/Credit Index, Bloomberg Barclays U.S. Aggregate Index and the Bloomberg Barclays Global Aggregate ex-USD Index. Daily liquidity is available.
- (h) This class includes exchange-traded funds holding securities indexed to the FTSE Developed All Cap ex U.S. Index. Daily liquidity is available.
- (i) This class includes exchange-traded funds holding securities indexed to 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. Daily liquidity is available.
- (j) 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 40% of the assets have monthly liquidity subject to notice periods of 5 to 25 business days. Quarterly redemptions are available for the other 60% of the assets with a 60-day notice requirement.
- (k) 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 may be subject to lock-up requirements. Redemption options range from monthly to quarterly with notice requirements of 30 days
- (l) 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 \$180 million as of June 30, 2018.
- (m) 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 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, 2018.

- (n) 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.

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 GAAP, 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 and 2018.

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 2018 and 2017, 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:

2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 28,659,378	\$ 873,485,152	\$ 902,144,530
Board-designated endowment funds	35,645,231	-	-	35,645,231
	<u>\$ 35,645,231</u>	<u>\$ 28,659,378</u>	<u>\$ 873,485,152</u>	<u>\$ 937,789,761</u>
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>

Changes in endowment, excluding contributions receivable, net assets for the fiscal years ended June 30, 2018 and 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2016	\$ 25,993,312	\$ 19,628,106	\$ 611,382,055	\$ 657,003,473
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	30,107,878	24,096,395	691,511,647	745,715,920
Investment return:				
Interest and dividends	228,183	185,686	5,477,000	5,890,869
Net realized and unrealized gains on long-term investments	2,690,278	2,312,496	77,823,700	82,826,474
Total investment return	2,918,461	2,498,182	83,300,700	88,717,343
Contributions	3,786,753	3,211,754	136,542,382	143,540,889
Appropriation of endowment assets for expenditure	(1,167,861)	(1,146,953)	(37,869,577)	(40,184,391)
Endowment net assets, June 30, 2018	\$ 35,645,231	\$ 28,659,378	\$ 873,485,152	\$ 937,789,761

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 three donors with pledges, which represent 37% of contributions receivable as of June 30, 2018. The Foundation has two donors with pledges, which represent 37% of contributions receivable as of June 30, 2017.

SUPPLEMENTAL SCHEDULES

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.
SCHEDULE OF ACTIVITIES BY DEVELOPMENT COUNCIL
Year ended June 30, 2018

	System	Fayetteville	Agriculture	Little Rock	Medical Sciences	Monticello	Pine Bluff	Winthrop P. Rockefeller Cancer Institute	Batesville	Morrilton	Pulaski Technical College	Total
Revenues, gains and other support:												
Contributions	\$ 1,937,331	\$ 154,082,377	\$ 1,383,788	\$ 8,081,351	\$ 9,303,864	\$ 648,895	\$ 1,223,065	\$ 9,574,674	\$ 77,009	\$ 164,359	\$ 1,884,633	\$ 188,361,346
Interest and dividends	627,487	5,317,240	265,537	815,882	2,814,779	140,199	114,940	599,838	10,007	6,009	16,216	10,728,134
Net realized and unrealized gains on investments	1,546,058	45,081,363	1,127,121	5,481,858	19,093,793	1,289,437	490,377	2,287,381	107,624	8,192	140,236	76,653,440
Total revenues, gains and other support	4,110,876	204,480,980	2,776,446	14,379,091	31,212,436	2,078,531	1,828,382	12,461,893	194,640	178,560	2,041,085	275,742,920
Expenses and losses:												
Program services:												
Construction	-	3,713,031	-	24,389	3,998,984	8,424	10,000	70,157	-	165,378	10,107	8,000,470
Research	-	4,894,567	1,645,601	86,938	2,030,357	-	-	3,805,720	-	-	-	12,463,183
Faculty/staff support	1,477,632	11,670,100	75,548	1,171,426	2,604,391	94,336	76,739	824,445	-	1,150	150	17,995,917
Scholarships and awards	210,926	9,172,609	57,850	1,920,795	1,205,150	357,334	648,397	50,619	60,887	15,074	75,690	13,775,331
Public/staff relations	62,580	385,328	118,492	237,792	701,739	36,271	41,114	181,218	11,405	5,999	6,212	1,788,150
Equipment	115,798	1,553,999	6,898	375,079	450,315	113,248	2,973	53,699	148	500	36,759	2,709,416
Sponsored programs	193,050	422,124	12,208	88,786	106,229	-	505	81,797	3,934	3,431	21,724	933,788
Other	497,760	4,958,280	86,674	1,625,055	1,042,225	136,038	93,781	472,424	6,780	18,394	30,589	8,968,000
Total program services	2,557,746	36,770,038	2,003,271	5,530,260	12,139,390	745,651	873,509	5,540,079	83,154	209,926	181,231	66,634,255
Supporting services:												
Management and general	3,594	712,328	975	96,511	98,327	13,951	604	17,054	384	-	300	944,028
Fundraising	26,872	1,072,627	61	341,800	251,280	15,271	56,141	350,327	6,491	6,942	148,055	2,275,867
Change in value of split-interest agreements	-	(321,550)	1,950	26,974	33,271	(22,702)	155	(141,102)	-	-	-	(423,004)
Provision for loss on uncollectible contributions	-	97,026	-	153,292	388,485	-	-	193,500	-	(3,000)	-	829,303
Total supporting services	30,466	1,560,431	2,986	618,577	771,363	6,520	56,900	419,779	6,875	3,942	148,355	3,626,194
Total expenses and losses	2,588,212	38,330,469	2,006,257	6,148,837	12,910,753	752,171	930,409	5,959,858	90,029	213,868	329,586	70,260,449
Change in net assets	1,522,664	166,150,511	770,189	8,230,254	18,301,683	1,326,360	897,973	6,502,035	104,611	(35,308)	1,711,499	205,482,471
Net assets, beginning of year	14,263,066	470,543,507	24,210,374	85,706,898	295,133,131	16,723,283	9,902,663	55,056,703	1,278,361	483,055	-	973,301,041
Net assets, end of year	\$ 15,785,730	\$ 636,694,018	\$ 24,980,563	\$ 93,937,152	\$ 313,434,814	\$ 18,049,643	\$ 10,800,636	\$ 61,558,738	\$ 1,382,972	\$ 447,747	\$ 1,711,499	\$ 1,178,783,512

See Independent Auditor's Report.

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
Total revenues, gains and other support	2,792,354	76,726,184	3,636,326	13,258,188	37,125,484	2,366,274	2,147,365	12,519,521	210,638	185,511	150,967,845
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
Total program services	2,588,769	31,723,403	2,001,562	5,341,699	9,113,880	974,388	570,909	11,267,329	83,984	852,300	64,518,223
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 contributions	-	34,000	-	61,960	43,453	-	-	38,868	-	3,000	181,281
Total supporting services	27,771	1,910,230	3,291	361,471	596,576	10,987	90,520	377,626	6,849	9,035	3,394,356
Total expenses and losses	2,616,540	33,633,633	2,004,853	5,703,170	9,710,456	985,375	661,429	11,644,955	90,833	861,335	67,912,579
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
Net assets, end of year	\$ 14,263,066	\$ 470,543,507	\$ 24,210,374	\$ 85,706,898	\$ 295,133,131	\$ 16,723,283	\$ 9,902,663	\$ 55,056,703	\$ 1,278,361	\$ 483,055	\$ 973,301,041