

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

JUNE 30, 2019 and 2018

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, 2019 and 2018, the related consolidated statements of activities, functional expenses 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, 2019 and 2018, 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 supplemental information is presented for purposes of additional analysis rather than to present the results of operations of the individual development councils and the consolidating statements of financial position 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2019, the entity adopted new accounting guidance related to the presentation of financial statements of not-for-profit entities. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Hogan Taylor LP". The signature is written in a cursive, flowing style.

Fayetteville, Arkansas
October 1, 2019

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

June 30, 2019 and 2018

	2019	2018
Assets		
Contributions receivable, net	\$ 43,656,718	\$ 27,274,658
Interest receivable	3,755,684	2,983,595
Investments, at fair value	1,329,835,542	1,164,638,882
Cash value of life insurance	1,570,547	1,492,384
Land	31,425	257,025
Total assets	\$ 1,378,849,916	\$ 1,196,646,544
 Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 2,281,928	\$ 2,405,368
Annuity obligations	15,492,470	15,457,664
Total liabilities	17,774,398	17,863,032
 Net assets:		
Without donor restrictions	117,892,372	106,304,205
With donor restrictions	1,243,183,146	1,072,479,307
Total net assets	1,361,075,518	1,178,783,512
 Total liabilities and net assets	\$ 1,378,849,916	\$ 1,196,646,544

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Contributions	\$ 23,934,202	\$ 166,640,659	\$ 190,574,861
Interest and dividends (see Note 10)	5,677,017	7,823,924	13,500,941
Net realized and unrealized gains on investments (see Note 10)	9,923,874	42,509,210	52,433,084
Net assets released from restrictions	43,848,704	(43,848,704)	-
Total revenues, gains and other support	83,383,797	173,125,089	256,508,886
Expenses and losses:			
Program services:			
University System support	67,999,704	-	67,999,704
Supporting services:			
Management and general	1,728,893	-	1,728,893
Fundraising and development	1,894,935	-	1,894,935
Change in value of split-interest agreements	17,497	1,144,207	1,161,704
Provision for loss on uncollectible contributions	154,601	1,277,043	1,431,644
Total supporting services	3,795,926	2,421,250	6,217,176
Total expenses and losses	71,795,630	2,421,250	74,216,880
Change in net assets	11,588,167	170,703,839	182,292,006
Net assets, beginning of year	106,304,205	1,072,479,307	1,178,783,512
Net assets, end of year	\$ 117,892,372	\$ 1,243,183,146	\$ 1,361,075,518

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Contributions	\$ 16,299,843	\$ 172,061,503	\$ 188,361,346
Interest and dividends (see Note 10)	4,103,381	6,624,753	10,728,134
Net realized and unrealized gains on investments (see Note 10)	5,025,739	71,627,701	76,653,440
Net assets released from restrictions	45,394,437	(45,394,437)	-
Total revenues, gains and other support	70,823,400	204,919,520	275,742,920
Expenses and losses:			
Program services:			
University System support	65,792,756	-	65,792,756
Supporting services:			
Management and general	1,785,528	-	1,785,528
Fundraising and development	2,275,866	-	2,275,866
Change in value of split-interest agreements	8,809	(431,813)	(423,004)
Provision for loss on uncollectible contributions	330,500	498,803	829,303
Total supporting services	4,400,703	66,990	4,467,693
Total expenses and losses	70,193,459	66,990	70,260,449
Change in net assets	629,941	204,852,530	205,482,471
Net assets, beginning of year	105,674,264	867,626,777	973,301,041
Net assets, end of year	\$ 106,304,205	\$ 1,072,479,307	\$ 1,178,783,512

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2019

	Program Services	Management and General	Fundraising and Development	Total
University System support:				
Construction	\$ 2,769,664	\$ -	\$ -	\$ 2,769,664
Research	15,122,279	-	-	15,122,279
Faculty and staff support	18,230,157	-	-	18,230,157
Scholarships and awards	13,538,153	-	-	13,538,153
Public and staff relations	1,923,769	-	-	1,923,769
Equipment and technology	2,254,739	-	-	2,254,739
Recruiting	829,476	-	-	829,476
Sponsored programs	837,769	-	-	837,769
Operating	12,493,698	-	-	12,493,698
Administrative services	-	1,320,146	-	1,320,146
Professional fees	-	232,835	-	232,835
Insurance	-	47,061	-	47,061
Rent	-	71,609	-	71,609
Other	-	57,242	-	57,242
Fundraising	-	-	1,894,935	1,894,935
Total	\$ 67,999,704	\$ 1,728,893	\$ 1,894,935	\$ 71,623,532

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2018

	Program Services	Management and General	Fundraising and Development	Total
University System support:				
Construction	\$ 8,000,470	\$ -	\$ -	\$ 8,000,470
Research	12,463,183	-	-	12,463,183
Faculty and staff support	16,543,951	-	-	16,543,951
Scholarships and awards	13,775,331	-	-	13,775,331
Public and staff relations	1,784,785	-	-	1,784,785
Equipment and technology	2,596,021	-	-	2,596,021
Recruiting	944,029	-	-	944,029
Sponsored programs	933,789	-	-	933,789
Operating	8,751,197	-	-	8,751,197
Administrative services	-	1,271,084	-	1,271,084
Professional fees	-	322,148	-	322,148
Insurance	-	51,292	-	51,292
Rent	-	70,165	-	70,165
Other	-	70,839	-	70,839
Fundraising	-	-	2,275,866	2,275,866
Total	\$ 65,792,756	\$ 1,785,528	\$ 2,275,866	\$ 69,854,150

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 182,292,006	\$ 205,482,471
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Receipt of land	(58,000)	-
Change in value of split-interest agreements	1,161,704	(423,004)
Net realized and unrealized gains on investments	(52,433,084)	(76,653,440)
Losses on sale of land	132,073	194,222
Change in allowance for doubtful accounts	75,000	134,500
Change in unamortized discount of contributions receivable	(866,824)	258,391
Increase in cash value of life insurance	(78,163)	(113,014)
Interest restricted for long-term investment	(170,259)	(372,559)
Contributions restricted for long-term investment	(117,336,077)	(130,957,194)
Change in assets and liabilities:		
Contributions receivable	(37,195,552)	(14,617,312)
Interest receivable	(772,089)	(502,955)
Accounts payable	(123,440)	(4,740,682)
	(25,372,705)	(22,310,576)
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,421,593,777	660,340,535
Purchase of investments	(1,534,357,353)	(783,855,786)
Proceeds from sale of land	151,527	100,778
	(112,612,049)	(123,414,473)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for:		
Investment in endowment	138,941,393	143,540,889
Investment subject to annuity obligations	776,260	4,005,868
Other financing activities:		
Interest restricted for reinvestment	170,259	372,559
Payment of annuity obligations	(1,903,158)	(2,194,267)
	137,984,754	145,725,049
Net cash provided by financing activities	137,984,754	145,725,049
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, 2019 and 2018

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 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.

Basis of accounting

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the consolidated statements of financial position, activities, cash flows and functional expenses of the Foundation.

Basis of presentation

The Foundation is required to report information regarding its financial position and activities based on the existence or absence of donor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment. Board-designated net assets are subject to self-imposed limits by action of the Board of Directors. Board-designated net assets may be earmarked for future programs, investment, contingencies, purchase or construction of property and equipment, or other uses.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature and may or will be met by expenditures or actions of the Foundation, by the passage of time, or appropriation by the Board of Directors of certain income earned on endowment. Other donor-imposed restrictions are perpetual in nature and are limited by donor-imposed restrictions which stipulate that resources be maintained in perpetuity but permit the Foundation to expend the income generated in accordance with the provisions of the related agreements.

Use of estimates

The preparation of financial statements in conformity with U.S. 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.

Contributions receivable

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 custodial and investment advisory fees. 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 \$405 million (30% of net assets) and \$356 million (30% of net assets) as of June 30, 2019 and 2018, 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.

Contributions

Gifts of cash and other assets are recorded as net assets with donor restrictions or without donor restrictions depending on the absence or existence and the nature of any donor restrictions. 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 the purpose for which the gift was received has been accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction is satisfied in the same reporting period in which the support is recognized. Other donor-imposed restrictions are perpetual in nature and stipulate resources be maintained in perpetuity 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).

Functional expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the accompanying statements of activities and in further detail in the accompanying statements of functional expenses. Fundraising expenses funded by the Foundation are in support of fundraising activities conducted by the System campuses.

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.

Adoption of new accounting pronouncement

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 decreases the number of net asset classes from three to two, requires reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhances disclosures about underwater endowments, requires disclosures of how an entity manages its liquid available resources to meet cash needs for general expenditures within one year and the availability of a nonprofit's financial assets to meet cash needs for general expenditures within one year, and requires reporting of expenses by nature and function, as well as an analysis of these expenses. ASU 2016-14 was adopted in 2019.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's financial statement presentation. These reclassifications had no effect on the previously reported change in net assets.

Subsequent event

Management has evaluated subsequent events through October 1, 2019, the date the consolidated financial statements were available to be issued.

Note 2 – Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restriction limiting their use, within one year of June 30, comprise the following:

	2019	2018
Financial assets at year end:		
Contributions receivable	\$ 43,656,718	\$ 27,274,658
Interest receivable	3,755,684	2,983,595
Cash value of life insurance	1,570,547	1,492,384
Investments	1,329,835,542	1,164,638,882
Total financial assets	1,378,818,491	1,196,389,519
Less amounts not available for general expenditures within one year:		
Net assets with donor restriction	1,243,183,146	1,072,479,307
Net assets without donor restriction retained	2,007,272	2,182,120
Assets designated for liabilities	17,774,398	17,863,032
Board-designated funds for future use	53,816,110	35,645,231
	1,316,780,926	1,128,169,690
Financial assets without donor restriction available to meet general expenditures over the next 12 months	\$ 62,037,565	\$ 68,219,829

Financial assets without donor restrictions are available to meet general expenditures at the discretion of the account holder subject to the Foundation's expenditure policy. Consistent with the objectives of the Foundation's investment policy, liquidity is managed to be available as expenditures, liabilities, and other obligations become due. As a part of its liquidity plan, the Foundation invests cash in excess of daily requirements in short-term investment-grade fixed income securities.

Note 3 – Contributions Receivable

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

	2019	2018
Due in less than one year	\$ 13,997,904	\$ 12,083,545
Due in one to five years	31,665,283	17,137,757
Due in more than five years	1,321,000	439,000
	46,984,187	29,660,302
Less:		
Allowance for doubtful accounts	(985,500)	(910,500)
Unamortized discount	(2,341,969)	(1,475,144)
	(3,327,469)	(2,385,644)
	\$ 43,656,718	\$ 27,274,658

Note 4 – Annuity Obligations

The Foundation has received gifts in return for lifetime annuities. The terms of these annuities vary depending upon the life expectancy of the recipients. The quarterly payments as of June 30, 2019 and 2018, were \$455,759 and \$469,910, respectively, including interest which ranges from 3% to 11%. Aggregate annual maturities of annuity obligations at June 30, 2019, are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 1,187,780
2021	1,188,975
2022	1,113,864
2023	1,056,984
2024	949,439
Thereafter	9,995,428
	<u>\$ 15,492,470</u>

Note 5 – Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
Subject to appropriation or expenditure:		
Scholarships and awards	\$ 40,723,113	\$ 36,068,178
Faculty/staff support	32,439,018	25,737,612
Research	15,693,870	14,963,337
Construction	45,894,879	46,759,358
Institutional support	39,344,642	34,079,115
Other	44,386,571	19,961,140
	<u>218,482,093</u>	<u>177,568,740</u>
Not subject to appropriation or expenditure:		
Scholarships and awards	330,125,430	314,110,488
Faculty/staff support	279,726,074	275,756,620
Research	43,922,632	42,140,551
Construction	23,539,274	23,128,903
Institutional support	307,229,691	202,362,340
Other	40,157,952	37,411,665
	<u>1,024,701,053</u>	<u>894,910,567</u>
Total net assets with donor restrictions	<u>\$ 1,243,183,146</u>	<u>\$ 1,072,479,307</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:

	2019	2018
Construction	\$ 2,420,286	\$ 4,476,089
Faculty/staff support	10,788,502	9,946,676
Scholarships and awards	13,219,217	13,178,304
Research	9,509,254	8,959,395
Other	7,911,445	8,833,973
	<u>\$ 43,848,704</u>	<u>\$ 45,394,437</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 \$142,747 and \$137,000 in fiscal years 2019 and 2018, 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, 2019, 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 59.65% of the total return pool and 87.12% of the short-term 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 (NAV) 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, 2019 and 2018.

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:

2019	Assets			
	Level 1	Level 2	NAV*	Total
Equity securities:				
United States (a)	\$ 103,207,928	\$ -	\$ -	\$ 103,207,928
International (a)	59,394,287	-	-	59,394,287
REITs (a)	3,656,470	-	-	3,656,470
Fixed income:				
U.S. government debt securities (b)	-	96,830,178	-	96,830,178
Other debt securities (c)	-	205,889	-	205,889
Commingled funds:				
U.S. equity (d)	2,579,487	-	-	2,579,487
International equity (e)	-	188,631,368	-	188,631,368
U.S. government bonds (f)	2,354,166	-	-	2,354,166
Corporate bonds (g)	6,210,990	-	-	6,210,990
Other partnerships:				
United States (j)	-	-	193,409,594	193,409,594
International (k)	-	-	55,611,244	55,611,244
Nonmarketable alternatives (l)	-	-	234,179,799	234,179,799
Marketable alternatives (m)	-	-	170,510,431	170,510,431
Money market and short-term investments (n)	213,053,711	-	-	213,053,711
Total	\$ 390,457,039	\$ 285,667,435	\$ 653,711,068	\$ 1,329,835,542

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

* In accordance with Subtopic 820-10, certain investments that were measured at fair value using the NAV per share (or its equivalent) as the practical expedient 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 10-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 common stocks with approximately 40% in emerging markets funds and 60% in developed markets funds. Benchmarks include the MSCI World ex U.S. Index, MSCI Emerging Markets Index, and S&P Frontier Markets Indices. Funds that offer daily redemptions comprise about 74% of the assets. The remaining 26% of the assets can be redeemed semi-monthly with a 15-day notice requirement.
- (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 to 5-Year Corporate Bond Index, the Bloomberg Barclays U.S. Mortgage-Backed Securities Index, and the ICE U.S. Treasury 3 to 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 45% of the assets have monthly liquidity subject to notice periods of 5 to 25 business days. Quarterly redemptions are available for the other 55% 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 and 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 \$215 million as of June 30, 2019.
- (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 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.

- (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 net assets with donor restriction not subject to appropriation for expenditure (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 is classified as net assets available for appropriation or expenditure 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 net assets with donor restriction. Deficiencies were immaterial as of June 30, 2018 and 2019.

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 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 net asset fund with or without donor restriction. The amount of funds transferred out of endowment is computed by applying the spending rate of 5% in 2019 and 2018, 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 net assets that are held in perpetuity.

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

	Without Donor Restrictions	With Donor Restrictions	Total
2019			
Donor-restricted endowment funds	\$ -	\$ 1,038,748,738	\$ 1,038,748,738
Board-designated endowment funds	53,816,110	-	53,816,110
	<u>\$ 53,816,110</u>	<u>\$ 1,038,748,738</u>	<u>\$ 1,092,564,848</u>
	Without Donor Restrictions	With Donor Restrictions	Total
2018			
Donor-restricted endowment funds	\$ -	\$ 902,144,530	\$ 902,144,530
Board-designated endowment funds	35,645,231	-	35,645,231
	<u>\$ 35,645,231</u>	<u>\$ 902,144,530</u>	<u>\$ 937,789,761</u>

Changes in endowment, excluding contributions receivable, net assets for the fiscal years ended June 30, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2017	\$ 30,107,878	\$ 715,608,042	\$ 745,715,920
Investment return:			
Interest and dividends	228,183	5,662,686	5,890,869
Net realized and unrealized gains on long-term investments	2,690,278	80,136,196	82,826,474
Total investment return	2,918,461	85,798,882	88,717,343
Contributions	3,786,753	139,754,136	143,540,889
Appropriation of endowment assets for expenditure	(1,167,861)	(39,016,530)	(40,184,391)
Endowment net assets, June 30, 2018	35,645,231	902,144,530	937,789,761

Investment return:			
Interest and dividends	689,296	7,051,822	7,741,118
Net realized and unrealized gains on long-term investments	2,621,887	60,161,272	62,783,159
Total investment return	3,311,183	67,213,094	70,524,277
Contributions	16,823,758	122,117,634	138,941,392
Appropriation of endowment assets for expenditure	(1,964,062)	(52,726,520)	(54,690,582)
Endowment net assets, June 30, 2019	<u>\$ 53,816,110</u>	<u>\$ 1,038,748,738</u>	<u>\$ 1,092,564,848</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 one donor with pledges, which represent 42% of contributions receivable as of June 30, 2019. The Foundation has three donors with pledges, which represent 37% of contributions receivable as of June 30, 2018.

SUPPLEMENTAL SCHEDULES

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

Year ended June 30, 2019

	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	\$ 110,340,589	\$ 54,901,022	\$ 2,678,171	\$ 8,429,657	\$ 7,754,040	\$ 489,879	\$ 2,119,655	\$ 2,250,929	\$ 74,563	\$ 128,062	\$ 1,408,294	\$ 190,574,861
Interest and dividends	1,704,463	6,342,193	299,435	936,485	3,221,554	159,924	158,294	631,464	12,334	6,119	28,676	13,500,941
Net realized and unrealized gains (losses) on investments	9,225,831	26,118,223	(106,592)	2,576,905	11,529,342	591,906	686,291	1,302,902	150,326	143,424	214,526	52,433,084
Total revenues, gains and other support	121,270,883	87,361,438	2,871,014	11,943,047	22,504,936	1,241,709	2,964,240	4,185,295	237,223	277,605	1,651,496	256,508,886
Expenses and losses:												
Program services:												
Construction	663,000	569,415	-	181,003	432,872	40,669	668,475	120,798	-	81,542	11,890	2,769,664
Research	-	4,842,354	1,458,176	126,487	1,533,167	-	-	7,162,095	-	-	-	15,122,279
Faculty/staff support	51,531	13,938,108	41,790	1,597,435	2,268,568	91,030	83,785	145,847	-	5,723	6,340	18,230,157
Scholarships and awards	181,258	9,553,703	53,375	1,771,619	1,403,700	338,256	66,168	5,121	45,960	17,150	101,843	13,538,153
Public/staff relations	66,713	552,251	147,421	238,575	752,990	46,495	42,768	50,347	12,187	7,009	7,013	1,923,769
Equipment and technology	7,944	406,549	10,899	471,176	548,822	111,071	108,020	568,352	1,540	-	20,366	2,254,739
Recruiting	918	248,055	1,104	29,918	211,299	17,246	29,965	290,729	242	-	-	829,476
Sponsored programs	70,730	423,358	8,257	58,230	120,537	11,381	873	52,376	-	5,525	86,502	837,769
Operating	2,358,468	5,417,259	110,777	1,820,661	2,076,379	121,092	222,213	333,337	3,452	6,505	23,555	12,493,698
Total program services	3,400,562	35,951,052	1,831,799	6,295,104	9,348,334	777,240	1,222,267	8,729,002	63,381	123,454	257,509	67,999,704
Supporting services:												
Management and general	1,728,893	-	-	-	-	-	-	-	-	-	-	1,728,893
Fundraising and development	34,128	448,833	-	341,202	160,272	61,145	61,061	659,073	5,432	5,789	118,000	1,894,935
Change in value of split-interest agreements	-	819,686	1,950	27,115	74,774	26,235	155	211,789	-	-	-	1,161,704
Provision for loss on uncollectible contributions	-	257,526	-	1,113,934	(115,316)	-	-	160,000	-	14,000	1,500	1,431,644
Total supporting services	1,763,021	1,526,045	1,950	1,482,251	119,730	87,380	61,216	1,030,862	5,432	19,789	119,500	6,217,176
Total expenses and losses	5,163,583	37,477,097	1,833,749	7,777,355	9,468,064	864,620	1,283,483	9,759,864	68,813	143,243	377,009	74,216,880
Change in net assets	116,107,300	49,884,341	1,037,265	4,165,692	13,036,872	377,089	1,680,757	(5,574,569)	168,410	134,362	1,274,487	182,292,006
Net assets, beginning 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
Net assets, end of year	\$ 131,893,030	\$ 686,578,359	\$ 26,017,828	\$ 98,102,844	\$ 326,471,686	\$ 18,426,732	\$ 12,481,393	\$ 55,984,169	\$ 1,551,382	\$ 582,109	\$ 2,985,986	\$ 1,361,075,518

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	25,667	11,670,099	75,548	1,171,426	2,604,391	94,336	76,739	824,445	-	1,150	150	16,543,951
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	59,214	385,329	118,492	237,792	701,739	36,271	41,114	181,218	11,405	5,999	6,212	1,784,785
Equipment and technology	2,403	1,553,999	6,898	375,079	450,315	113,248	2,973	53,699	148	500	36,759	2,596,021
Recruiting	3,594	712,329	975	96,511	98,327	13,951	604	17,054	384	-	300	944,029
Sponsored programs	193,050	422,125	12,208	88,786	106,229	-	505	81,797	3,934	3,431	21,724	933,789
Operating	280,958	4,958,279	86,674	1,625,055	1,042,225	136,038	93,781	472,424	6,780	18,394	30,589	8,751,197
Total program services	775,812	37,482,367	2,004,246	5,626,771	12,237,717	759,602	874,113	5,557,133	83,538	209,926	181,531	65,792,756
Supporting services:												
Management and general	1,785,528	-	-	-	-	-	-	-	-	-	-	1,785,528
Fundraising and development	26,872	1,072,626	61	341,800	251,280	15,271	56,141	350,327	6,491	6,942	148,055	2,275,866
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	1,812,400	848,102	2,011	522,066	673,036	(7,431)	56,296	402,725	6,491	3,942	148,055	4,467,693
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