

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

JUNE 30, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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 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 black ink that reads "Hogan Taylor LP". The signature is written in a cursive, flowing style.

Fayetteville, Arkansas
September 29, 2020

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

June 30, 2020 and 2019

	2020	2019
Assets		
Contributions receivable, net	\$ 61,908,066	\$ 43,656,718
Interest receivable	885,667	3,755,684
Investments, at fair value	1,365,656,164	1,329,835,542
Cash value of life insurance	1,314,689	1,570,547
Land	348,425	31,425
Total assets	\$ 1,430,113,011	\$ 1,378,849,916
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 4,146,007	\$ 2,281,928
Annuity obligations	14,670,353	15,492,470
Total liabilities	18,816,360	17,774,398
Net assets:		
Without donor restrictions	117,129,631	117,892,372
With donor restrictions	1,294,167,020	1,243,183,146
Total net assets	1,411,296,651	1,361,075,518
Total liabilities and net assets	\$ 1,430,113,011	\$ 1,378,849,916

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Contributions	\$ 10,798,581	\$ 81,633,734	\$ 92,432,315
Interest and dividends	3,242,527	5,233,112	8,475,639
Net realized and unrealized gains on investments	11,989,165	12,741,719	24,730,884
Net assets released from restrictions	48,293,571	(48,293,571)	-
Total revenues, gains and other support	74,323,844	51,314,994	125,638,838
Expenses and losses:			
Program services:			
University System support	71,750,691	-	71,750,691
Supporting services:			
Management and general	1,975,745	-	1,975,745
Fundraising and development	1,415,427	-	1,415,427
Change in value of split-interest agreements	(57,608)	238,969	181,361
Provision for loss on uncollectible contributions	2,330	92,151	94,481
Total supporting services	3,335,894	331,120	3,667,014
Total expenses and losses	75,086,585	331,120	75,417,705
Change in net assets	(762,741)	50,983,874	50,221,133
Net assets, beginning of year	117,892,372	1,243,183,146	1,361,075,518
Net assets, end of year	\$ 117,129,631	\$ 1,294,167,020	\$ 1,411,296,651

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	5,677,017	7,823,924	13,500,941
Net realized and unrealized gains on investments	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 FUNCTIONAL EXPENSES

Year ended June 30, 2020

	Program Services	Management and General	Fundraising and Development	Total
University System support:				
Construction	\$ 3,453,948	\$ -	\$ -	\$ 3,453,948
Research	11,063,509	-	-	11,063,509
Faculty and staff support	20,327,616	-	-	20,327,616
Scholarships and awards	14,265,545	-	-	14,265,545
Public and staff relations	1,468,842	-	-	1,468,842
Equipment and technology	2,847,483	-	-	2,847,483
Recruiting	916,881	-	-	916,881
Sponsored programs	692,290	-	-	692,290
Operating	16,714,577	-	-	16,714,577
Administrative services	-	1,536,222	-	1,536,222
Professional fees	-	222,677	-	222,677
Insurance	-	53,532	-	53,532
Rent	-	72,991	-	72,991
Other	-	90,323	-	90,323
Fundraising	-	-	1,415,427	1,415,427
Total	<u>\$ 71,750,691</u>	<u>\$ 1,975,745</u>	<u>\$ 1,415,427</u>	<u>\$ 75,141,863</u>

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

Year ended June 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
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	<u>\$ 67,999,704</u>	<u>\$ 1,728,893</u>	<u>\$ 1,894,935</u>	<u>\$ 71,623,532</u>

THE UNIVERSITY OF ARKANSAS FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$ 50,221,133	\$ 182,292,006
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Receipt of land	(464,000)	(58,000)
Change in value of split-interest agreements	181,361	1,161,704
Net realized and unrealized gains on investments	(24,730,884)	(52,433,084)
Losses on sale of land	71,936	132,073
Change in allowance for doubtful accounts	(99,000)	75,000
Change in unamortized discount of contributions receivable	445,107	(866,824)
Decrease (increase) in cash value of life insurance	255,858	(78,163)
Interest restricted for long-term investment	(144,928)	(170,259)
Contributions restricted for long-term investment	(43,703,282)	(117,336,077)
Change in assets and liabilities:		
Contributions receivable	(10,242,419)	(37,195,552)
Interest receivable	2,870,017	(772,089)
Accounts payable	1,864,079	(123,440)
Net cash used in operating activities	(23,475,022)	(25,372,705)
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,442,644,089	1,421,593,777
Purchase of investments	(1,453,733,827)	(1,534,357,353)
Proceeds from sale of land	75,064	151,527
Net cash used in investing activities	(11,014,674)	(112,612,049)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for:		
Investment in endowment	35,348,246	138,941,393
Investment subject to annuity obligations	1,821,421	776,260
Other financing activities:		
Interest restricted for reinvestment	144,928	170,259
Payment of annuity obligations	(2,824,899)	(1,903,158)
Net cash provided by financing activities	34,489,696	137,984,754
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, 2020 and 2019

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 \$398 million (28% of net assets) and \$405 million (30% of net assets) as of June 30, 2020 and 2019, 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.

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.

Recently adopted accounting pronouncements

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made*. The amendment clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The requirements for this ASU are applicable for resource recipients for the year ended June 30, 2020, and effective for resource providers in the year ending June 30, 2021, with early adoption permitted. On July 1, 2019, the Foundation adopted all portions of this ASU (as resource recipient and provider) using the modified prospective method. The adoption of this ASU resulted in no impact to the Foundation's financial statements.

Subsequent event

In July 2020, the University of Arkansas Foundation received a \$195 million contribution to establish the Institute for Integrative and Innovative Research. Of the \$195 million, \$140 million is designated for the construction of a research facility and the remaining \$55 million will be held and managed by the Foundation as an endowment for the Institute for Integrative and Innovative Research. Management has evaluated subsequent events through September 29, 2020, the date the consolidated financial statements were available to be issued, noting no additional events aside from the COVID-19 pandemic described in Note 12.

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:

	2020	2019
Financial assets at year end:		
Contributions receivable	\$ 61,908,066	\$ 43,656,718
Interest receivable	885,667	3,755,684
Cash value of life insurance	1,314,689	1,570,547
Investments	1,365,656,164	1,329,835,542
	<hr/>	<hr/>
Total financial assets	1,429,764,586	1,378,818,491
Less amounts not available for general expenditures within one year:		
Net assets with donor restriction	1,294,167,020	1,243,183,146
Net assets without donor restriction retained	2,120,089	2,007,272
Assets designated for liabilities	18,816,360	17,774,398
Board-designated funds for future use	54,295,526	53,816,110
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	1,369,398,995	1,316,780,926
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Financial assets without donor restriction available to meet general expenditures over the next 12 months	\$ 60,365,591	\$ 62,037,565
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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:

	2020	2019
Due in less than one year	\$ 30,777,313	\$ 13,997,904
Due in one to five years	32,685,032	31,665,283
Due in more than five years	1,262,750	1,321,000
	<hr/>	<hr/>
	64,725,095	46,984,187
Less:		
Allowance for doubtful accounts	(886,500)	(985,500)
Unamortized discount	(1,930,529)	(2,341,969)
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	(2,817,029)	(3,327,469)
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	\$ 61,908,066	\$ 43,656,718
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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, 2020 and 2019, were \$440,910 and \$455,759, respectively, including interest which ranges from 3% to 15%. Aggregate annual maturities of annuity obligations at June 30, 2020, are as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 1,543,602
2022	1,202,153
2023	1,128,340
2024	899,070
2025	798,058
Thereafter	<u>9,099,130</u>
	<u><u>\$ 14,670,353</u></u>

Note 5 – Net Assets with Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Subject to appropriation or expenditure:		
Scholarships and awards	\$ 60,155,854	\$ 40,723,113
Faculty/staff support	34,134,166	32,439,018
Research	17,247,003	15,693,870
Construction	46,461,131	45,894,879
Institutional support	44,702,991	39,344,642
Other	40,565,760	44,386,571
	<u>243,266,905</u>	<u>218,482,093</u>
Not subject to appropriation or expenditure:		
Scholarships and awards	341,476,427	330,125,430
Faculty/staff support	274,751,320	279,726,074
Research	46,511,362	43,922,632
Construction	25,974,661	23,539,274
Institutional support	299,749,015	307,229,691
Other	62,437,330	40,157,952
	<u>1,050,900,115</u>	<u>1,024,701,053</u>
Total net assets with donor restrictions	<u><u>\$ 1,294,167,020</u></u>	<u><u>\$ 1,243,183,146</u></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:

	2020	2019
Construction	\$ 2,211,687	\$ 2,420,286
Faculty/staff support	13,420,460	10,788,502
Scholarships and awards	13,665,189	13,219,217
Research	8,012,191	9,509,254
Other	10,984,044	7,911,445
	<u>\$ 48,293,571</u>	<u>\$ 43,848,704</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 \$149,030 and \$142,747 in the years ending June 30, 2020 and 2019, 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, 2020, 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 60.23% of the total return pool and 88.24% 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, 2020 and 2019.

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:

2020	Assets			
	Level 1	Level 2	NAV*	Total
Equity securities:				
United States (a)	\$ 41,665,582	\$ -	\$ -	\$ 41,665,582
International (a)	19,404,779	-	-	19,404,779
Fixed income:				
U.S. government debt securities (b)	-	73,553,844	-	73,553,844
Other debt securities (c)	-	104,840	-	104,840
Commingled funds:				
U.S. equity (d)	12,562,822	47,119,028	-	59,681,850
International equity (d)	4,401,477	128,779,410	-	133,180,887
U.S. government bonds (d)	2,310,315	-	-	2,310,315
Corporate bonds (d)	5,871,993	-	-	5,871,993
Other partnerships:				
United States (e)	-	-	208,791,347	208,791,347
International (f)	-	-	110,927,740	110,927,740
Nonmarketable alternatives (g)	-	-	256,813,133	256,813,133
Marketable alternatives (h)	-	-	141,231,547	141,231,547
Money market and short-term investments (i)	312,118,307	-	-	312,118,307
Total	\$ 398,335,275	\$ 249,557,122	\$ 717,763,767	\$ 1,365,656,164

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 (d)	-	188,631,368	-	188,631,368
U.S. government bonds (d)	2,354,166	-	-	2,354,166
Corporate bonds (d)	6,210,990	-	-	6,210,990
Other partnerships:				
United States (e)	-	-	193,409,594	193,409,594
International (f)	-	-	55,611,244	55,611,244
Nonmarketable alternatives (g)	-	-	234,179,799	234,179,799
Marketable alternatives (h)	-	-	170,510,431	170,510,431
Money market and short-term investments (i)	213,053,711	-	-	213,053,711
Total	\$ 390,457,039	\$ 285,667,435	\$ 653,711,068	\$ 1,329,835,542

* 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 5-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 and collective trust funds invested in the common stocks with approximately 30% in U.S. funds, 40% in international developed market funds and 30% in emerging markets. Benchmarks include the S&P 500, Russell 1000 Value Index, the MSCI World ex U.S. Index, MSCI Emerging Markets Index, and S&P Frontier Markets Indices. Funds that offer daily redemptions comprise about 70% of the assets. The remaining assets can be redeemed semi-monthly or monthly with a 15- or 30-day notice requirement.
- (e) 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.
- (f) 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.
- (g) 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 \$248 million as of June 30, 2020.
- (h) 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.
- (i) 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. As of June 30, 2020, the balance of money market and short-term investments included \$70 million of cash which was invested in a U.S. limited partnership in a trade executed in July 2020 and recorded by the Foundation subsequent to year-end.

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, 2019 and 2020.

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 2020 and 2019, 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
2020			
Donor-restricted endowment funds	\$ -	\$ 1,054,760,455	\$ 1,054,760,455
Board-designated endowment funds	54,295,526	-	54,295,526
	<u>\$ 54,295,526</u>	<u>\$ 1,054,760,455</u>	<u>\$ 1,109,055,981</u>
	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>

Changes in endowment, excluding contributions receivable, net assets for the years ending June 30, 2020 and 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 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	53,816,110	1,038,748,738	1,092,564,848
Investment return:			
Interest and dividends	719,015	6,187,675	6,906,690
Net realized and unrealized gains on long-term investments	396,569	34,417,180	34,813,749
Total investment return	1,115,584	40,604,855	41,720,439
Contributions	1,733,951	33,614,294	35,348,245
Appropriation of endowment assets for expenditure	(2,370,119)	(58,207,432)	(60,577,551)
Endowment net assets, June 30, 2020	<u>\$ 54,295,526</u>	<u>\$ 1,054,760,455</u>	<u>\$ 1,109,055,981</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 three donors with pledges which represent 55% of contributions receivable as of June 30, 2020. The Foundation has one donor with pledges which represent 42% of contributions receivable as of June 30, 2019.

Note 12 – COVID-19

In March 2020, the pandemic outbreak of a novel coronavirus known as COVID-19 began to spread throughout the United States and the world, resulting in emergency declarations by national, state and local governments and municipalities. The outbreak has caused economic uncertainty, which had an impact on the Foundation's operations and its donors' operations potentially affecting their ability to make future contributions to the Foundation. In addition, global financial markets have experienced significant volatility as a result of COVID-19 and it is difficult to estimate the impact or duration of the volatility on the Foundation's investment portfolio. The effect of this event on the Foundation's future financial position or results of operations is not currently determinable due to broader economic and industry uncertainties.

SUPPLEMENTAL SCHEDULES

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

Year ended June 30, 2020

	System	Fayetteville	Agriculture	Little Rock	Medical Sciences	Monticello	Pine Bluff	Batesville	Morrilton	Pulaski Technical College	Phillips	Total
Revenues, gains and other support:												
Contributions	\$ 10,707,763	\$ 28,422,555	\$ 674,892	\$ 32,224,073	\$ 14,134,145	\$ 2,528,411	\$ 1,373,063	\$ 73,740	\$ 56,956	\$ 590,981	\$ 1,645,736	\$ 92,432,315
Interest and dividends	1,015,050	4,115,390	179,610	584,398	2,355,361	101,677	89,747	8,308	3,807	17,422	4,869	8,475,639
Net realized and unrealized gains (losses) on investments	3,581,072	12,398,172	348,510	1,961,156	5,535,758	497,144	158,268	26,421	7,268	41,775	175,340	24,730,884
Total revenues, gains and other support	15,303,885	44,936,117	1,203,012	34,769,627	22,025,264	3,127,232	1,621,078	108,469	68,031	650,178	1,825,945	125,638,838
Expenses and losses:												
Program services:												
Construction	-	320,792	-	186,798	2,899,608	11,250	-	-	-	5,500	30,000	3,453,948
Research	-	4,799,725	1,150,734	133,892	4,979,158	-	-	-	-	-	-	11,063,509
Faculty/staff support	76,291	15,495,919	40,964	1,439,164	3,128,339	103,206	34,895	-	4,420	4,418	-	20,327,616
Scholarships and awards	70,529	10,141,597	44,350	1,995,463	962,773	310,767	473,247	38,556	27,145	120,881	80,237	14,265,545
Public/staff relations	45,402	364,657	140,338	210,380	603,862	35,972	35,366	4,922	2,063	20,420	5,460	1,468,842
Equipment and technology	20,870	1,176,437	2,683	295,941	707,051	226,657	52,647	169	-	365,028	-	2,847,483
Recruiting	580	574,678	1,423	37,569	273,338	20,891	385	63	7,954	-	-	916,881
Sponsored programs	151,661	358,017	3,886	53,311	109,261	250	33	-	1,778	14,093	-	692,290
Operating	4,624,237	7,409,880	115,414	1,699,190	2,485,811	133,302	171,564	7,189	3,890	59,576	4,524	16,714,577
Total program services	4,989,570	40,641,702	1,499,792	6,051,708	16,149,201	842,295	768,137	50,899	47,250	589,916	120,221	71,750,691
Supporting services:												
Management and general	1,975,745	-	-	-	-	-	-	-	-	-	-	1,975,745
Fundraising and development	9,006	176,380	-	207,331	869,483	12,502	54,915	9,640	406	75,134	630	1,415,427
Change in value of split-interest agreements	-	248,874	2,166	27,115	(99,597)	2,648	155	-	-	-	-	181,361
Provision for loss on uncollectible contributions	-	108,268	-	32,450	(32,237)	-	-	-	(14,000)	-	-	94,481
Total supporting services	1,984,751	533,522	2,166	266,896	737,649	15,150	55,070	9,640	(13,594)	75,134	630	3,667,014
Total expenses and losses	6,974,321	41,175,224	1,501,958	6,318,604	16,886,850	857,445	823,207	60,539	33,656	665,050	120,851	75,417,705
Change in net assets	8,329,564	3,760,893	(298,946)	28,451,023	5,138,414	2,269,787	797,871	47,930	34,375	(14,872)	1,705,094	50,221,133
Net assets, beginning of year	131,893,030	686,578,359	26,017,828	98,102,844	382,455,855	18,426,732	12,481,393	1,551,382	582,109	2,985,986	-	1,361,075,518
Net assets, end of year	\$ 140,222,594	\$ 690,339,252	\$ 25,718,882	\$ 126,553,867	\$ 387,594,269	\$ 20,696,519	\$ 13,279,264	\$ 1,599,312	\$ 616,484	\$ 2,971,114	\$ 1,705,094	\$ 1,411,296,651

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	Batesville	Morrilton	Pulaski Technical College	Total
Revenues, gains and other support:											
Contributions	\$ 110,340,589	\$ 54,901,022	\$ 2,678,171	\$ 8,429,657	\$ 10,004,969	\$ 489,879	\$ 2,119,655	\$ 74,563	\$ 128,062	\$ 1,408,294	\$ 190,574,861
Interest and dividends	1,704,463	6,342,193	299,435	936,485	3,853,018	159,924	158,294	12,334	6,119	28,676	13,500,941
Net realized and unrealized gains on investments	9,225,831	26,118,223	(106,592)	2,576,905	12,832,244	591,906	686,291	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	26,690,231	1,241,709	2,964,240	237,223	277,605	1,651,496	256,508,886
Expenses and losses:											
Program services:											
Construction	663,000	569,415	-	181,003	553,670	40,669	668,475	-	81,542	11,890	2,769,664
Research	-	4,842,354	1,458,176	126,487	8,695,262	-	-	-	-	-	15,122,279
Faculty/staff support	51,531	13,938,108	41,790	1,597,435	2,414,415	91,030	83,785	-	5,723	6,340	18,230,157
Scholarships and awards	181,258	9,553,703	53,375	1,771,619	1,408,821	338,256	66,168	45,960	17,150	101,843	13,538,153
Public/staff relations	66,713	552,251	147,421	238,575	803,337	46,495	42,768	12,187	7,009	7,013	1,923,769
Equipment and technology	7,944	406,549	10,899	471,176	1,117,174	111,071	108,020	1,540	-	20,366	2,254,739
Recruiting	918	248,055	1,104	29,918	502,028	17,246	29,965	242	-	-	829,476
Sponsored programs	70,730	423,358	8,257	58,230	172,913	11,381	873	-	5,525	86,502	837,769
Operating	2,358,468	5,417,259	110,777	1,820,661	2,409,716	121,092	222,213	3,452	6,505	23,555	12,493,698
Total program services	3,400,562	35,951,052	1,831,799	6,295,104	18,077,336	777,240	1,222,267	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	819,345	61,145	61,061	5,432	5,789	118,000	1,894,935
Change in value of split-interest agreements	-	819,686	1,950	27,115	286,563	26,235	155	-	-	-	1,161,704
Provision for loss on uncollectible contributions	-	257,526	-	1,113,934	44,684	-	-	-	14,000	1,500	1,431,644
Total supporting services	1,763,021	1,526,045	1,950	1,482,251	1,150,592	87,380	61,216	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	19,227,928	864,620	1,283,483	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	7,462,303	377,089	1,680,757	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	374,993,552	18,049,643	10,800,636	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	\$ 382,455,855	\$ 18,426,732	\$ 12,481,393	\$ 1,551,382	\$ 582,109	\$ 2,985,986	\$ 1,361,075,518