

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

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES**

**JUNE 30, 2015 and 2014**

**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, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Arkansas Foundation, Inc. and subsidiary as of June 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matter**

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

*Hogan Taylor LLP*

October 1, 2015

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

**June 30, 2015 and 2014**

	2015	2014
<b>Assets</b>		
Contributions receivable, net	\$ 30,132,446	\$ 38,520,860
Interest receivable	2,814,863	2,362,912
Investments, at fair value	884,394,655	840,292,509
Cash value of life insurance	1,196,556	1,087,458
Land, buildings and equipment, net of accumulated depreciation of \$255,834	800,025	1,106,752
Total assets	\$ 919,338,545	\$ 883,370,491
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 2,344,867	\$ 5,448,456
Annuity obligations	15,067,528	16,259,097
Total liabilities	17,412,395	21,707,553
Net assets:		
Unrestricted	102,610,251	99,506,691
Temporarily restricted	141,361,837	133,237,061
Permanently restricted	657,954,062	628,919,186
Total net assets	901,926,150	861,662,938
Total liabilities and net assets	\$ 919,338,545	\$ 883,370,491

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

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 11,845,325	\$ 28,069,572	\$ 33,252,616	\$ 73,167,513
Interest and dividends (see Note 10)	4,560,484	5,069,866	314,364	9,944,714
Net realized and unrealized gains on investments (see Note 10)	5,018,476	19,139,872	(3,101,424)	21,056,924
Other	50,043	-	-	50,043
Net asset reclassifications, including released from restrictions - satisfaction of restrictions	38,264,802	(38,264,802)	-	-
<b>Total revenues, gains and other support</b>	<b>59,739,130</b>	<b>14,014,508</b>	<b>30,465,556</b>	<b>104,219,194</b>
Expenses and losses:				
Program services:				
Construction	2,126,413	-	-	2,126,413
Research	12,250,386	-	-	12,250,386
Faculty/staff support	12,113,994	-	-	12,113,994
Scholarships and awards	10,433,066	-	-	10,433,066
Public/staff relations	1,917,201	-	-	1,917,201
Equipment	3,005,030	-	-	3,005,030
Sponsored programs	826,769	-	-	826,769
Other	11,903,086	-	-	11,903,086
<b>Total program services</b>	<b>54,575,945</b>	<b>-</b>	<b>-</b>	<b>54,575,945</b>
Supporting services:				
Management and general	449,057	-	-	449,057
Fundraising	1,540,821	-	-	1,540,821
Change in value of split-interest agreements	330	177	369,731	370,238
Provision for loss (recovery) on uncollectible contributions	69,417	5,889,555	1,060,949	7,019,921
<b>Total supporting services</b>	<b>2,059,625</b>	<b>5,889,732</b>	<b>1,430,680</b>	<b>9,380,037</b>
<b>Total expenses and losses</b>	<b>56,635,570</b>	<b>5,889,732</b>	<b>1,430,680</b>	<b>63,955,982</b>
Change in net assets	3,103,560	8,124,776	29,034,876	40,263,212
Net assets, beginning of year	99,506,691	133,237,061	628,919,186	861,662,938
<b>Net assets, end of year</b>	<b>\$ 102,610,251</b>	<b>\$ 141,361,837</b>	<b>\$ 657,954,062</b>	<b>\$ 901,926,150</b>

See notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2014**

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

See notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended June 30, 2015 and 2014**

	2015	2014
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 40,263,212	\$ 96,836,177
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in value of split-interest agreements	370,238	193,830
Net realized and unrealized gains on investments	(21,056,924)	(92,122,274)
Net decrease in allowance for doubtful accounts	(244,152)	(6,739,850)
Increase in cash value of life insurance	(109,098)	(101,570)
Interest restricted for long-term investment	(361,450)	(311,790)
Contributions restricted for long-term investment	(33,252,616)	(20,174,687)
Change in assets and liabilities:		
Contributions receivable	6,388,006	8,106,719
Interest receivable	(451,951)	12,329
Accounts payable	(3,103,589)	(2,603,625)
	(11,558,324)	(16,904,741)
<b>Net cash used in operating activities</b>		
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	810,355,520	295,340,222
Purchase of investments	(833,400,742)	(298,365,726)
Proceeds from sale of equipment	316,696	-
Purchase of equipment	(9,969)	-
	(22,738,495)	(3,025,504)
<b>Net cash used in investing activities</b>		
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for:		
Investment in endowment	35,497,176	18,757,148
Investment subject to annuity obligations	116,329	2,667,261
Other financing activities:		
Interest restricted for reinvestment	361,450	311,790
Payment of annuity obligations	(1,678,136)	(1,805,954)
	34,296,819	19,930,245
<b>Net cash provided by financing activities</b>		
<b>Net change in cash and cash equivalents at beginning and end of year</b>	\$ -	\$ -



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2015 and 2014**

**Note 1 – Nature of Operations and Summary of Significant Accounting Policies**

Nature of operations

The University of Arkansas Foundation, Inc. (the Foundation) administers and invests gifts and other amounts received directly or indirectly as a result of the individual fundraising activities of the various unincorporated development councils of the Foundation. The Foundation's principal activity is providing support to or for the benefit of The University of Arkansas.

The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, University of Arkansas Foundation Realty LLC (an Arkansas limited liability company) (the Subsidiary). The specific purposes of the Subsidiary are to receive, hold, manage and sell real estate of the Foundation and the Subsidiary, acquired by gift, devise or purchase, and to otherwise invest, reinvest, manage and operate the assets of the Subsidiary. The Subsidiary will exist for a period of 50 years ending December 31, 2050. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Unrestricted net assets

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

Temporarily restricted net assets

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

Permanently restricted net assets

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

## Contributions

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received.

The allowance for uncollectible contributions receivable is maintained at a level considered adequate to provide for potential losses based on management's evaluation of the contributions receivable, as well as on historical losses, changes in conditions may necessitate revision of this estimate in future years.

## Investments

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

The Foundation paid approximately \$2.1 and \$2.3 million in custodial and investment advisory fees during the years ended June 30, 2015 and 2014, respectively. These fees are netted against interest and dividends revenue in the Statements of Activities.

The consolidated financial statements include investments in other partnerships and alternatives valued at approximately \$369 million (41% of net assets) and \$405 million (47% of net assets) as of June 30, 2015 and 2014, respectively. The fair values of these investments have been prepared by management in the absence of readily determinable fair values. These values are based on information provided by the respective fund managers.

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

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

## Donated assets

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

## Income taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is considered an organization that is not a private foundation.

## Subsequent events

Management has evaluated subsequent events through October 1, 2015, the date the consolidated financial statements were available to be issued.

## Note 2 – Contributions Receivable

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

	2015	2014
Due in less than one year	\$ 15,965,380	\$ 17,321,580
Due in one to five years	16,866,836	25,009,651
Due in more than five years	707,557	1,394,120
	33,539,773	43,725,351
Less: allowance for doubtful accounts	(839,800)	(1,083,952)
Unamortized discount	(2,567,527)	(4,120,539)
	(3,407,327)	(5,204,491)
	\$ 30,132,446	\$ 38,520,860

## Note 3 – Annuity Obligations

The Foundation has received gifts in return for lifetime annuities. The terms of these annuities vary depending upon the life expectancy of the recipients. The quarterly payments as of June 30, 2015 and 2014, were \$437,160 and \$440,171, respectively, including interest which ranges from 3% to 11%.

Aggregate annual maturities of annuity obligations at June 30, 2015, are as follows:

Year	Amount
2016	\$ 1,289,872
2017	1,278,099
2018	1,221,245
2019	1,141,956
2020	1,093,191
Thereafter	9,043,165
	\$ 15,067,528

## Note 4 – Temporarily Restricted Net Assets

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

	2015	2014
Construction	\$ 43,490,798	\$ 47,229,315
Faculty/staff support	18,936,364	16,860,098
Institutional support	37,870,323	27,975,013
Research	15,109,719	17,310,118
Scholarships and awards	25,954,633	23,862,517
	\$ 141,361,837	\$ 133,237,061

### Note 5 – Permanently Restricted Net Assets

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

	2015	2014
Construction	\$ 20,956,324	\$ 18,239,010
Faculty/staff support	220,728,429	205,276,820
Institutional support	143,395,825	143,717,962
Research	34,724,489	34,864,477
Scholarships and awards	211,273,160	200,897,990
Other	26,875,835	25,922,927
	<u>\$ 657,954,062</u>	<u>\$ 628,919,186</u>

### Note 6 – Net Assets Released From Restrictions

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

	2015	2014
Construction	\$ 2,019,454	\$ 6,439,544
Scholarships and awards	9,870,142	13,421,004
Research	10,530,621	8,411,034
Faculty/staff support	8,088,289	9,403,510
Other	7,756,296	9,344,929
	<u>\$ 38,264,802</u>	<u>\$ 47,020,021</u>

### Note 7 – Pension Plan

The Foundation has a defined contribution (money-purchase) retirement plan covering substantially all employees. The Foundation's contributions to the plan are 5% of participants' salaries. In addition, the Foundation will match all contributions made by employees up to and including 5%. Contributions are limited to 10% of the total compensation paid to participants during the plan year. Participants' interests are immediately vested. Employer contributions to the plan were \$125,860 and \$125,000 in fiscal years 2015 and 2014, 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

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

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

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

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

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

There were no investment transfers due to changes in the observability of significant inputs between Level 1 and Level 2 assets during the years ended June 30, 2015 and 2014. There were no transfers into or out of Level 3 assets for the years ended June 30, 2015 and 2014.

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:

2015	Assets			
	Level 1	Level 2	Level 3	Total
Equity securities:				
United States	\$ 42,602,028	\$ 7,646	\$ -	\$ 42,609,674
International	67,642,940	-	2,995	67,645,935
REITs	3,021,882	-	-	3,021,882
Fixed income:				
U.S. government debt securities (a)	669,495	33,651,396	-	34,320,891
Other debt securities	676,165	45,144	-	721,309
Commingled funds:				
U.S. equity (b)	38,988,542	-	-	38,988,542
International equity (c)	36,466,763	73,687,420	-	110,154,183
U.S. government bonds (d)	2,384,454	23,524,630	-	25,909,084
Non U.S. government bonds (e)	16,926,033	-	-	16,926,033
Corporate bonds (f)	23,591,722	96,196,900	-	119,788,622
Exchange-traded funds (g):				
Equity	12,208,047	-	-	12,208,047
Fixed income	14,778,429	-	-	14,778,429
Other partnerships:				
United States (h)	-	-	91,309,246	91,309,246
International (i)	-	-	31,127,116	31,127,116
Nonmarketable alternatives (j)	-	-	116,828,862	116,828,862
Marketable alternatives (k)	-	-	129,623,614	129,623,614
Cash and cash equivalents (l)	28,432,938	248	-	28,433,186
<b>Total</b>	<b>\$ 288,389,438</b>	<b>\$ 227,113,384</b>	<b>\$ 368,891,833</b>	<b>\$ 884,394,655</b>

  

2014	Assets			
	Level 1	Level 2	Level 3	Total
Equity securities:				
United States	\$ 45,358,972	\$ 80,109	\$ -	\$ 45,439,081
International	19,144,040	-	3,026	19,147,066
REITs	3,435,843	-	-	3,435,843
Fixed income:				
U.S. government debt securities	599,858	22,780,913	-	23,380,771
Other debt securities	954,994	50,171	-	1,005,165
Commingled funds:				
U.S. equity	19,372,274	1,218,790	-	20,591,064
International equity	23,713,925	81,350,750	-	105,064,675
U.S. government bonds	2,519,618	19,851,211	-	22,370,829
Corporate bonds	23,679,136	130,992,874	-	154,672,010
Exchange-traded funds:				
Equity	9,886,063	-	-	9,886,063
Fixed income	15,220,091	-	-	15,220,091
Other partnerships:				
United States	-	-	84,254,569	84,254,569
International	-	-	51,148,318	51,148,318
Nonmarketable alternatives	-	-	126,478,530	126,478,530
Marketable alternatives	-	-	143,517,077	143,517,077
Cash and cash equivalents	14,681,080	277	-	14,681,357
<b>Total</b>	<b>\$ 178,565,894</b>	<b>\$ 256,325,095</b>	<b>\$ 405,401,520</b>	<b>\$ 840,292,509</b>

- (a) This class includes U.S. Treasury securities managed to approximate the risk and return characteristics of the Barclays Capital U.S. Treasury OTR Five-year Index. Daily liquidity is available.
- (b) 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.
- (c) This class includes mutual funds and collective trust funds invested in the common stocks of international companies with approximately 40% in emerging markets funds, 38% in developed markets funds and 22% in global natural resources. Benchmarks include the MSCI World ex U.S. Index, MSCI Emerging Markets Index, S&P Frontier Markets Indices and S&P Global Custom Metals & Mining Index. Mutual funds that offer daily redemptions comprise about half of the assets. The remaining funds can be redeemed semi-monthly with a two-business day notice requirement.
- (d) This class includes investments in a collective trust fund indexed to the Barclays U.S. Intermediate Government Bond Index. Daily redemptions are available with a two-business day notice.
- (e) This class includes investments in a mutual fund indexed to the JP Morgan Government Bond Index-Emerging Markets Global Diversified Index. Daily liquidity is available.
- (f) This class includes investments in mutual funds and collective trust funds indexed to the Barclays High Yield Corporate Index and U.S. Intermediate Credit Index. The funds offer daily redemptions with approximately 80% of the assets subject to a two-business day notice requirement.
- (g) This class includes exchange-traded funds holding securities indexed to the FTSE Emerging Markets Index, the FTSE Global All-Cap Index and the Markit iBoxx USD Liquid Investment Grade Bond Index. Daily liquidity is available.
- (h) 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 30% of the assets can be redeemed monthly with a five-business day notice. Quarterly redemptions are available for 65% of the assets with a 60-day notice. The remaining 5% of assets are in a partnership that allows annual redemptions of up to 20% of the balance with a 90-day notice requirement and requires a five-year withdrawal period to exit the fund.
- (i) This class includes investments in limited partnerships that invest primarily in international common stocks, including both developed and emerging markets and are benchmarked to the MSCI World Index and the MSCI EM Small Cap Index. Withdrawals are subject to notice requirements may be subject to lock-up requirements. Redemption options range from monthly to quarterly with notice requirements of 30 days.
- (j) 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.
- (k) 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-day's 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 and subject to a lock-up which expires at the end of 2016.
- (l) The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents.

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the fiscal years ended June 30, 2015 and 2014:

	Equity Securities	Other Partnerships U.S.	Other Partnerships International	Nonmarketable Alternatives	Marketable Alternatives	Total
Balance, July 1, 2013	\$ 2,875	\$ 59,750,540	\$ 50,654,496	\$ 113,893,354	\$ 118,265,957	\$ 342,567,222
Purchases	-	9,924,835	4,698,528	-	15,134,619	29,757,982
Sales	(84,402)	(703,324)	(13,345,653)	(7,708,388)	(354,459)	(22,196,226)
Unrealized gain	84,553	15,282,518	5,166,596	20,293,564	10,470,960	51,298,191
Realized gain	-	-	3,974,351	-	-	3,974,351
Balance, June 30, 2014	3,026	84,254,569	51,148,318	126,478,530	143,517,077	405,401,520

Purchases	-	11,113,971	6,148,154	-	3,405,132	20,667,257	
Sales	-	(11,289,385)	(29,047,319)	(26,720,824)	(20,226,671)	(87,284,199)	
Unrealized gain (loss)	(31)	5,730,433	(799,271)	17,071,156	2,928,076	24,930,363	
Realized gain	-	1,499,658	3,677,234	-	-	5,176,892	
Balance, June 30, 2015	\$	2,995	\$ 91,309,246	\$ 31,127,116	\$ 116,828,862	\$ 129,623,614	\$ 368,891,833

## Note 10 – Endowment

The Foundation's endowment consists of funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Directors of the Foundation (the Board) to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** – The Foundation interprets Arkansas Act 262, cited as the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), which was approved February 2009, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instruments at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard prudence prescribed in UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purpose of the Foundation and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Foundation
- 7) The investment policy of the Foundation

**Funds with Deficiencies** – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in permanently restricted net assets, based on donor agreements. Deficiencies were immaterial as of June 30, 2015 and 2014, respectively.

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



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

**Spending Policy** – The Board has approved a spending policy whereby funds are transferred quarterly from endowment to the appropriate temporarily restricted or unrestricted operating fund. The amount of funds transferred out of endowment is computed by applying the spending rate of 5% in 2015 and 2014, to the 36-month average fair value as of the end of each quarter. This transfer is reflected on the Statement of Activities as an outflow of interest and dividends and net realized and unrealized gains on investments from the permanently restricted net asset classification.

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

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 16,409,803	\$ 633,597,722	\$ 650,007,525
Board-designated endowment funds	26,227,490	-	-	26,227,490
	<u>\$ 26,227,490</u>	<u>\$ 16,409,803</u>	<u>\$ 633,597,722</u>	<u>\$ 676,235,015</u>
2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 19,284,419	\$ 593,018,076	\$ 612,302,495
Board-designated endowment funds	26,055,566	-	-	26,055,566
	<u>\$ 26,055,566</u>	<u>\$ 19,284,419</u>	<u>\$ 593,018,076</u>	<u>\$ 638,358,061</u>

Changes in endowment net assets for the fiscal years ended June 30, 2015 and 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2013	\$ 22,664,600	\$ 16,248,982	\$ 512,331,167	\$ 551,244,749
Investment return:				
Interest and dividends	143,364	79,306	3,975,031	4,197,701
Net realized and unrealized gains on long-term investments	3,362,370	1,862,713	76,281,747	81,506,830
Total investment return	3,505,734	1,942,019	80,256,778	85,704,531
Contributions	735,682	2,223,307	15,798,159	18,757,148
Appropriation of endowment assets for expenditure	(850,450)	(1,129,889)	(15,368,028)	(17,348,367)
Endowment net assets, June 30, 2014	26,055,566	19,284,419	593,018,076	638,358,061

Investment return:				
Interest and dividends	180,425	106,332	4,185,932	4,472,689
Net realized and unrealized gains on long-term investments	808,562	456,730	24,661,430	25,926,722
Total investment return	988,987	563,062	28,847,362	30,399,411
Contributions	247,111	1,200,387	34,049,678	35,497,176
Appropriation of endowment assets for expenditure	(1,064,174)	(4,638,065)	(22,317,394)	(28,019,633)
Endowment net assets, June 30, 2015	\$ 26,227,490	\$ 16,409,803	\$ 633,597,722	\$ 676,235,015

### 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 FDIC 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 and two donors with pledges receivable, net of allowance, of 31% and 39% of net pledges receivable as of June 30, 2015 and 2014, respectively.

**SUPPLEMENTAL SCHEDULES**

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

**SCHEDULE OF ACTIVITIES BY DEVELOPMENT COUNCIL**

**Year ended June 30, 2015**

	System	Fayetteville	Agriculture	Little Rock	Medical Sciences	Monticello	Pine Bluff	Arkansas Cancer Research Center	Batesville	Total
Revenues, gains and other support:										
Contributions	\$ 1,184,933	\$ 32,770,650	\$ 1,642,048	\$ 5,116,619	\$ 16,018,666	\$ 788,482	\$ 953,143	\$ 14,608,993	\$ 83,979	\$ 73,167,513
Interest and dividends	694,890	4,277,529	306,533	814,820	3,050,311	134,426	89,985	565,556	10,664	9,944,714
Net realized and unrealized gains on investments	1,022,430	11,959,935	304,087	1,553,937	5,090,401	392,869	94,859	605,939	32,467	21,056,924
Other	-	-	-	35,148	725	14,170	-	-	-	50,043
<b>Total revenues, gains and other support</b>	<b>2,902,253</b>	<b>49,008,114</b>	<b>2,252,668</b>	<b>7,520,524</b>	<b>24,160,103</b>	<b>1,329,947</b>	<b>1,137,987</b>	<b>15,780,488</b>	<b>127,110</b>	<b>104,219,194</b>
Expenses and losses:										
Program services:										
Construction	-	599,048	-	95,515	506,583	111,534	-	813,733	-	2,126,413
Research	-	5,739,299	1,827,248	28,623	1,969,492	-	-	2,685,724	-	12,250,386
Faculty/staff support	1,261,270	6,023,603	30,286	862,100	3,020,392	87,012	28,278	801,053	-	12,113,994
Scholarships and awards	229,524	7,022,601	70,399	1,388,110	854,690	409,330	403,210	3,000	52,202	10,433,066
Public/staff relations	103,453	329,594	250,040	241,496	736,571	45,762	42,419	154,017	13,849	1,917,201
Equipment	133,653	1,681,255	115,267	80,254	602,059	102,156	13,000	274,470	2,916	3,005,030
Sponsored programs	85,358	369,609	48,901	105,965	102,530	9,039	4,608	75,413	25,346	826,769
Other	398,997	8,044,596	206,017	1,816,868	951,763	114,694	100,340	267,477	2,334	11,903,086
<b>Total program services</b>	<b>2,212,255</b>	<b>29,809,605</b>	<b>2,548,158</b>	<b>4,618,931</b>	<b>8,744,080</b>	<b>879,527</b>	<b>591,855</b>	<b>5,074,887</b>	<b>96,647</b>	<b>54,575,945</b>
Supporting services:										
Management and general	2,382	172,566	4,352	146,509	81,699	12,868	13,175	15,490	16	449,057
Fundraising	22,678	526,617	853	286,015	270,126	15,781	55,327	352,035	11,389	1,540,821
Change in value of split-interest agreements	-	368,731	1,750	28,235	73,425	(10,304)	155	(91,754)	-	370,238
Provision for loss (recovery) on uncollectible pledges	-	6,880,052	-	13,866	196,003	-	-	(70,000)	-	7,019,921
<b>Total supporting services</b>	<b>25,060</b>	<b>7,947,966</b>	<b>6,955</b>	<b>474,625</b>	<b>621,253</b>	<b>18,345</b>	<b>68,657</b>	<b>205,771</b>	<b>11,405</b>	<b>9,380,037</b>
<b>Total expenses and losses</b>	<b>2,237,315</b>	<b>37,757,571</b>	<b>2,555,113</b>	<b>5,093,556</b>	<b>9,365,333</b>	<b>897,872</b>	<b>660,512</b>	<b>5,280,658</b>	<b>108,052</b>	<b>63,955,982</b>
Change in net assets	664,938	11,250,543	(302,445)	2,426,968	14,794,770	432,075	477,475	10,499,830	19,058	40,263,212
Net assets, beginning of year	8,591,344	425,498,249	23,456,906	75,137,914	260,517,893	15,297,235	6,589,801	45,340,579	1,233,017	861,662,938
<b>Net assets, end of year</b>	<b>\$ 9,256,282</b>	<b>\$ 436,748,792</b>	<b>\$ 23,154,461</b>	<b>\$ 77,564,882</b>	<b>\$ 275,312,663</b>	<b>\$ 15,729,310</b>	<b>\$ 7,067,276</b>	<b>\$ 55,840,409</b>	<b>\$ 1,252,075</b>	<b>\$ 901,926,150</b>

See Independent Auditor's Report.

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

**SCHEDULE OF ACTIVITIES BY DEVELOPMENT COUNCIL**

**Year ended June 30, 2014**

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

See Independent Auditor's Report.