

***ARKANSAS STATE
UNIVERSITY FOUNDATION, INC.***

Financial Statements as of and for the
Years ended June 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Arkansas State University Foundation, Inc.
Jonesboro, Arkansas

We have audited the accompanying financial statements of Arkansas State University Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2015 and 2014, the related statements of activities and cash flows for the years then ended, and the related notes to 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 audit. We conducted our audit 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 from 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 Arkansas State University Foundation, Inc. as of June 30, 2015 and 2014, the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Jones & Company, LTD

Jones & Company, Ltd.
Jonesboro, Arkansas

October 2, 2015

**Arkansas State University Foundation, Inc.
Statements of Financial Position**

ASSETS

| | June 30, | |
|--|----------------------|----------------------|
| | 2015 | 2014 |
| Cash | \$ 536,805 | \$ 246,200 |
| Repurchase agreements | 5,543,759 | 5,366,125 |
| Certificates of deposit | 3,713,723 | 3,706,896 |
| Prepaid expenses | 19,468 | 5,829 |
| Unconditional promises to give, net | 1,527,983 | 1,431,460 |
| Short-term investment | 83,997 | 87,171 |
| Long-term investments | 55,419,584 | 52,088,736 |
| Cash surrender value of life insurance | 6,648 | 7,155 |
| Property and equipment, net | 985,017 | 1,043,266 |
| Other assets | 107,269 | 1,099 |
| Total Assets | \$ 67,944,253 | \$ 63,983,937 |

LIABILITIES & NET ASSETS

Liabilities

| | | |
|--|------------|------------|
| Accounts payable | \$ 92,925 | \$ 42,788 |
| Annuities payable | 27,956 | 52,299 |
| Due to ASU campuses | 517,256 | 184,495 |
| Due to Alumni Association | - | 2,383 |
| Amounts held on behalf of Arkansas State University related entities | 11,923,085 | 11,334,653 |

| | | |
|--------------------------|----------------------|----------------------|
| Total Liabilities | \$ 12,561,222 | \$ 11,616,618 |
|--------------------------|----------------------|----------------------|

Net Assets

| | | |
|------------------------|--------------|--------------|
| Unrestricted | \$ 2,458,885 | \$ 2,519,182 |
| Temporarily restricted | 8,159,485 | 7,867,701 |
| Permanently restricted | 44,764,661 | 41,980,436 |

| | | |
|-------------------------|----------------------|----------------------|
| Total Net Assets | \$ 55,383,031 | \$ 52,367,319 |
|-------------------------|----------------------|----------------------|

| | | |
|---|----------------------|----------------------|
| Total Liabilities and Net Assets | \$ 67,944,253 | \$ 63,983,937 |
|---|----------------------|----------------------|

The accompanying notes are an integral part of these financial statements.

Arkansas State University Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2015

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Support | | | | |
| Support and reclassifications | | | | |
| Contributions | \$ 96,996 | \$ 2,373,137 | \$ 1,892,659 | \$ 4,362,792 |
| Contributed services | 285,619 | - | - | 285,619 |
| Support from the Arkansas State | | | | |
| University Real Estate Foundation | - | - | 1,981,310 | 1,981,310 |
| Investment return, net | 50,763 | 1,403,880 | (460,867) | 993,776 |
| Grant income | - | 74,997 | - | 74,997 |
| Other income | 533,048 | 368,528 | - | 901,576 |
| Net assets released from | | | | |
| restrictions | 3,879,005 | (3,879,005) | - | - |
| | <u>\$ 4,845,431</u> | <u>\$ 341,537</u> | <u>\$ 3,413,102</u> | <u>\$ 8,600,070</u> |
| Expenses and Losses | | | | |
| Program services | | | | |
| Academic activities | \$ 736,947 | \$ - | \$ - | \$ 736,947 |
| Administrative | 261,049 | - | - | 261,049 |
| Student activities | 66,264 | - | - | 66,264 |
| Supporting services | | | | |
| Management and general | 488,708 | - | - | 488,708 |
| Fundraising | 323,287 | - | - | 323,287 |
| Transfers to Arkansas State | | | | |
| University | 3,015,738 | - | - | 3,015,738 |
| Change in split-interest agreements | - | - | 35,458 | 35,458 |
| | <u>\$ 4,891,993</u> | <u>\$ -</u> | <u>\$ 35,458</u> | <u>\$ 4,927,451</u> |
| Increase (decrease) in net assets | <u>\$ (46,562)</u> | <u>\$ 341,537</u> | <u>\$ 3,377,644</u> | <u>\$ 3,672,619</u> |
| Net assets at beginning of the year | \$ 2,519,182 | \$ 7,867,701 | \$ 41,980,436 | \$ 52,367,319 |
| Reclassification and internal transfers | (13,735) | (49,753) | 63,488 | - |
| Transfer of assets to Red Wolves | | | | |
| Foundation | - | - | (656,907) | (656,907) |
| | <u>\$ 2,505,447</u> | <u>\$ 7,817,948</u> | <u>\$ 41,387,017</u> | <u>\$ 51,710,412</u> |
| Net assets at the end of the year | <u>\$ 2,458,885</u> | <u>\$ 8,159,485</u> | <u>\$ 44,764,661</u> | <u>\$ 55,383,031</u> |

The accompanying notes are an integral part of these financial statements.

Arkansas State University Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2014

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Support | | | | |
| Support and reclassifications | | | | |
| Contributions | \$ 188,275 | \$ 2,055,466 | \$ 2,346,505 | \$ 4,590,246 |
| Contributed services | 313,221 | - | - | 313,221 |
| Investment return, net | 64,501 | 643,531 | 5,227,593 | 5,935,625 |
| Other income | 481,564 | 395,840 | 6,234 | 883,638 |
| Net assets released from restrictions | <u>3,992,785</u> | <u>(3,992,785)</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 5,040,346</u> | <u>\$ (897,948)</u> | <u>\$ 7,580,332</u> | <u>\$ 11,722,730</u> |
| Expenses and Losses | | | | |
| Program services | | | | |
| Academic activities | \$ 600,450 | \$ - | \$ - | \$ 600,450 |
| Administrative | 198,234 | - | - | 198,234 |
| Student activities | 130,004 | - | - | 130,004 |
| Supporting services | | | | |
| Management and general | 477,377 | - | - | 477,377 |
| Fundraising | 340,606 | - | - | 340,606 |
| Transfers to Arkansas State University | 3,174,777 | - | - | 3,174,777 |
| Transfers to Arkansas State Alumni Association | <u>3,650</u> | <u>-</u> | <u>-</u> | <u>3,650</u> |
| | <u>\$ 4,925,100</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,925,100</u> |
| Increase in net assets | <u>\$ 115,246</u> | <u>\$ (897,948)</u> | <u>\$ 7,580,332</u> | <u>\$ 6,797,630</u> |
| Net assets at beginning of the year | \$ 2,461,558 | \$ 8,556,041 | \$ 34,552,090 | \$ 45,569,689 |
| Reclassification and internal transfers | <u>(57,622)</u> | <u>209,608</u> | <u>(151,986)</u> | <u>-</u> |
| | <u>2,403,936</u> | <u>8,765,649</u> | <u>34,400,104</u> | <u>45,569,689</u> |
| Net assets at the end of the year | <u>\$ 2,519,182</u> | <u>\$ 7,867,701</u> | <u>\$ 41,980,436</u> | <u>\$ 52,367,319</u> |

The accompanying notes are an integral part of these financial statements.

Arkansas State University Foundation, Inc.
Statements of Cash Flows
For the Years Ended

June 30,

2015 2014

| | 2015 | 2014 |
|---|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 3,672,619 | \$ 6,797,630 |
| Adjustments to reconcile change in net assets to net cash | | |
| Depreciation expense | 58,249 | 56,141 |
| Contributions restricted for long-term investment | (1,892,659) | (2,346,505) |
| Noncash donations included in support | (66,035) | (66,035) |
| Net realized and unrealized gain on investments | 865,251 | (6,688,078) |
| Change in value of split-interest agreements | 36,000 | - |
| Transfer of non-cash assets | 66,035 | 66,035 |
| Changes in: | | |
| Unconditional promises to give | (96,523) | 10,611 |
| Cash surrender value of life insurance | 507 | (445) |
| Prepaid expense | (13,639) | 4,440 |
| Other assets | (106,170) | 3,065 |
| Accounts payable | 50,137 | (38,853) |
| Annuities payable | (60,343) | (59,402) |
| Funds held for others | 918,810 | 1,629,430 |
| Net cash (used for) provided by operating activities | \$ 3,432,239 | \$ (631,966) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | \$ - | \$ (33,591) |
| Purchase of investments | (2,407,296) | (1,500,000) |
| Proceeds from sale of investments | 238,211 | 567,099 |
| Purchases of certificates of deposit | - | (2,103,000) |
| Proceeds from certificates of deposit | - | 249,593 |
| Net cash used for investing activities | \$ (2,169,085) | \$ (2,819,899) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on notes payable | \$ - | \$ (4,053) |
| Contributions restricted for long-term investments | 1,892,659 | 2,346,505 |
| Interest and dividends restricted for reinvestment | (2,030,667) | (643,896) |
| Transfer of assets to Red Wolves Foundation, Inc. | (656,907) | - |
| Net cash provided by financing activities | \$ (794,915) | \$ 1,698,556 |
| NET CHANGE IN CASH | \$ 468,239 | \$ (1,753,309) |
| Cash, beginning of the year | 5,612,325 | 7,365,634 |
| Cash, end of the year | \$ 6,080,564 | \$ 5,612,325 |
| <i>Supplemental Disclosures for Cash Flows</i> | | |
| Cash paid for interest | \$ 37 | \$ 594 |

The accompanying notes are an integral part of these financial statements.

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

1) NATURE OF BUSINESS

Organization and Nature of Operations

Arkansas State University Foundation, Inc. (the Foundation) is an Arkansas corporation chartered March 7, 1977. The Foundation's primary purpose is to support the Arkansas State University System (the University) by advancing higher education, research and allied supportive activities through the promotion of private financial support. The Foundation is considered a component unit of Arkansas State University (the University) and is presented in the University's financial statements.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Advertising

Advertising costs are charged to operations when incurred. Advertising expense for the years ended June 30, 2015 and 2014 was \$25,567 and \$23,992, respectively.

Basis of Reporting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Under this method of accounting, revenue is recognized when earned and when the amount and timing of the revenue can be reasonable estimated. Expenses are recognized as they occur.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) 958-210; *Presentation of Financial Statements of Not-For-Profit Entities*. Under FASB ASC 958-210, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that the net assets be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes in support of the University. The Foundation is allowed to expend principal in accordance with the spending policy established by the Foundation's Board of Directors (see Note 6).

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or passage of time. When a donor restriction expires, this is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the statements of activities as net assets released from restriction. When the restrictions on contributions are met in the same period that the contribution is received, the contribution is reported in the statements of activities as temporarily restricted revenues and as net assets released from restrictions.

Unrestricted net assets – net assets which represent resources generated from operations or that are not subject to donor-imposed stipulations.

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Basis of Presentation (continued)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases these net asset classes.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers cash, repurchase agreements and certificates of deposit with an original maturity of three months or less to be cash equivalents. As of June 30, 2015, cash equivalents totaling \$4,909,445 have been restricted by donor imposed stipulations and cash equivalents of \$976,910 are being held under agency agreements.

Contributions

Contributions, including unconditional promises to give, are recorded as received or promised and classified as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unconditional promises to give due within one year are recorded at net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Date of Management Review

The Foundation has evaluated events and transactions for potential recognition or disclosure in the financial statements through October 2, 2015, the date the report was available for release. No subsequent events have been recognized or disclosed.

Donated Noncash Assets and Donated Services

Donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills are recorded at their fair values in the period received. These donated services are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The donated services were used for the management and administration of the Foundation.

Income Taxes

The Foundation is exempt from federal income tax under the provisions of section 501(a) of Internal Revenue Code as an organization described in section 501(c)(3). Therefore, no provision for federal or state income taxes has been made.

The Foundation files income tax returns in the U.S. federal jurisdiction. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2012.

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Income Taxes (continued)

The Foundation has reviewed and evaluated tax positions in accordance with the provisions of FASB ASC 740-10-55, *Accounting for Uncertainty in Income Taxes*, which provides a financial statement recognition threshold and measurement attribute for a tax position taken or to be taken in a tax return. The Foundation does not feel any tax positions meet the requirements for reporting under this standard.

Impairment of Long-lived Assets

Long-lived assets, such as land, buildings, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Foundation first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounting cash flow models and third-party independent appraisals, as considered necessary.

Investments

Investments consist primarily of marketable securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statements of activities. Restricted investment income and investment gains whose restrictions are met in the same reporting period are shown as unrestricted support.

Liquidity

Assets are presented in the accompanying statement of financial position according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The Foundation capitalizes all expenditures in excess of \$2,500 for property and equipment at cost. When property and equipment are retired, the related cost and accumulated depreciation is removed from the balance sheet and any resultant gain or loss is recorded. Repairs and maintenance costs are expensed as incurred. Property and equipment are depreciated using the straight-line method over estimated useful lives as follows:

| | |
|---------------------------|-------------|
| Buildings | 30 years |
| Furnishings and equipment | 3 – 7 years |

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, 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.

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

3) REPURCHASE AGREEMENT

The Foundation has two agreements with two different financial institutions to sweep funds from its checking accounts into repurchase agreements. The funds are swept daily and are secured by U.S. treasury obligations, U.S. government securities, and municipal securities. These funds are considered cash equivalents for the statement of cash flows.

4) UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at June 30, 2015 and 2014 are as follows:

| Receivable in: | 2015 | 2014 |
|---|--------------|--------------|
| Less than one year | \$ 33,480 | \$ 18,000 |
| One to five years | 1,750,647 | 1,069,289 |
| After five years | 18,157 | 600,000 |
| Total unconditional promises to give | \$ 1,802,284 | \$ 1,687,289 |
| Less unamortized discount | 184,486 | 184,331 |
| Less allowance for uncollectible promises | 89,815 | 71,498 |
| Net unconditional promises to give | \$ 1,527,983 | \$ 1,431,460 |

Unconditional promises to give with due dates extending beyond one year are discounted using Treasury bill rates for similar term investments. The applicable rates at June 30, 2015 were 0.73% to 2.32%.

As of June 30, 2015, unconditional promises to give totaling \$1,299,209 have been restricted by donor stipulations. Also, three donors represented more than 10% of total promises to give at June 30, 2015. Donor A represented 28%, donor B represented 15% and donor C represented 14%.

5) INVESTMENTS

The market values of the Foundation's portfolio of investments as of June 30, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|--------------------------------|---------------|---------------|
| Money Market Funds | \$ 23,458 | \$ - |
| U.S. Equity Mutual Funds | 27,346,187 | 23,416,854 |
| U.S. Equities | 137,199 | 2,307,722 |
| International Equities | 5,557,416 | 5,141,335 |
| Fixed Income Investments | 18,093,438 | 17,974,487 |
| Guaranteed Investment Contract | 83,998 | 87,171 |
| Partnership Interest | 4,261,885 | 3,195,310 |
| Other | - | 53,028 |
| | \$ 55,503,581 | \$ 52,175,907 |

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

5) INVESTMENTS (continued)

The Foundation provides for investments in various investment securities, which are in general exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and those changes could materially affect the amounts reported in the statements of activities. Investment fees included in investment income totaled \$611,710 and \$422,077 for the years ended June 30, 2015 and 2014, respectively.

The following schedules summarizes the return on investments and interest bearing cash deposits for the year ended June 30, 2015 and 2014:

| | Net Unrealized/Realized Gains (Losses) | Investment Income (Expense) | Interest Income | Total |
|-----------------------------------|--|-----------------------------------|--------------------|-------------------|
| U.S. equity mutual funds | \$ 1,185,643 | \$ 153,604 | \$ - | \$ 1,339,247 |
| Fixed income investments | (885,417) | 1,255,253 | - | 369,836 |
| U.S. equities | 9,284 | (7,137) | - | 2,147 |
| International equities | (215,737) | 85,787 | - | (129,950) |
| Guaranteed investment contract | - | - | 1,826 | 1,826 |
| Partnership interest | (740,488) | 71,696 | - | (668,792) |
| Money market | - | 4 | - | 4 |
| Assets held in trust | 14,064 | 14,241 | 211 | 28,516 |
| Certificates of deposit | - | - | 12,309 | 12,309 |
| Cash | - | - | 38,633 | 38,633 |
| | <u>\$ (632,651)</u> | <u>\$ 1,573,448</u> | <u>\$ 52,979</u> | <u>\$ 993,776</u> |

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

5) INVESTMENTS (continued)

| | Net Unrealized/Realized Gains (Losses) | Investment Income (Expense) | Interest Income | Total |
|----------------------------|--|-----------------------------------|--------------------|---------------------|
| U.S. equity mutual funds | 2,631,627 | 158,380 | - | 2,790,007 |
| Fixed income investments | 75,088 | 281,621 | - | 356,709 |
| U.S. equities | 354,595 | (13,175) | - | 341,420 |
| International equity funds | 656,196 | 40,192 | - | 696,388 |
| Guaranteed Investment | | | | |
| Contract | - | - | 1,948 | 1,948 |
| Partnership interest | 1,612,943 | 39,381 | - | 1,652,324 |
| Other | - | - | 1,683 | 1,683 |
| Assets held in trust | 31,460 | 12,618 | 51 | 44,129 |
| Certificates of deposit | - | - | 19,708 | 19,708 |
| Cash | - | - | 31,309 | 31,309 |
| | <u>\$ 5,361,909</u> | <u>\$ 519,017</u> | <u>\$ 54,699</u> | <u>\$ 5,935,625</u> |

The following schedules summarize the investment return and its classification in the statements of activities for the years ended June 30, 2015 and 2014:

| | 2015 | | | |
|--------------------------------------|------------------|---------------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Interest income | \$ 42,931 | \$ 10,048 | \$ - | \$ 52,979 |
| Investment income | 13,104 | 1,395,108 | 165,236 | 1,573,448 |
| Net realized and unrealized gains | (5,272) | (1,276) | (626,103) | (632,651) |
| Total investment return | <u>\$ 50,763</u> | <u>\$ 1,403,880</u> | <u>\$ (460,867)</u> | <u>\$ 993,776</u> |
| | 2014 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Interest income | \$ 39,003 | \$ 15,696 | \$ - | \$ 54,699 |
| Investment income | 2,687 | 516,330 | - | 519,017 |
| Net realized and unrealized gains | 22,811 | 111,505 | 5,227,593 | 5,361,909 |
| Total investment return | <u>\$ 64,501</u> | <u>\$ 643,531</u> | <u>\$ 5,227,593</u> | <u>\$ 5,935,625</u> |

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

6) ENDOWMENTS

FASB ASC 958-205, *“Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds”* provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FASB ASC 958-205 also requires additional disclosures about an organization’s endowment funds (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Arkansas enacted UPMIFA effective February 26, 2009, the provisions of which apply to endowment funds existing on or established after that date. The Foundation has adopted FASB ASC 958-205. The Board of Trustees, on the advice of legal counsel, has determined that the majority of the Foundation’s permanently restricted net assets meet the definition of endowment funds under UPMIFA.

The Foundation’s endowment consists of approximately 324 individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Board of Trustees of the Foundation has interpreted Senate Bill 254 (UPMIFA) cited as the “Uniform Prudent Management of Institutional Funds Act” as requiring the Board to use reasonable care, skill, and caution as exercised by a prudent investor in considering the investment management and expenditures of endowment funds.

In accordance with UPMIFA, the Board may expend so much of an endowment fund as the Board determines to be prudent for the uses and purposes for which the endowment fund is established, consistent with the goal of conserving the long-term purchasing power of the endowment fund. The Board considered the following factors in making its determination:

- 1) The purpose of the Foundation;
- 2) The intent of the donor of the endowment fund;
- 3) The terms of the applicable instrument;
- 4) The long-term and short-term needs of the Foundation and the University in carrying out its purposes;
- 5) General economic conditions;
- 6) The possible effect of inflation or deflation;
- 7) The other resources of the Foundation and the University; and,
- 8) Perpetuation of the endowment.

As a result of this interpretation, the Board classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) the remaining amount of investment return less appropriated expenditures at the end of each year. However, by Board policy, any appreciation is considered an asset of the individual endowment fund and is not appropriated for general Foundation use.

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

6) ENDOWMENTS (continued)

Investment Return Objectives, Risk Parameters and Strategies: The Foundation has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, real estate funds, and partnership interests that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy: The Foundation has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value of the prior five calendar year-ends for most of its endowments. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at an average nominal rate of 3% annually, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Distributions for endowment funds three years old or less are limited to actual cash yield; endowment funds less than \$10,000 will not be allowed to spend; and any "underwater" endowment funds will be limited to 3% of the rolling five year average fair value measured at calendar year-end.

Endowment net asset composition by type of fund as of June 30, 2015 and 2014 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Net Endowments</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Donor-restricted endowment funds June 30, 2015 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 44,764,661</u> | <u>\$ 44,764,661</u> |
| Donor-restricted endowment funds June 30, 2014 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 41,980,436</u> | <u>\$ 41,980,436</u> |

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

6) ENDOWMENTS (continued)

Changes in endowment net assets as of June 30, 2015 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Net Endowments |
|--|--------------|---------------------------|---------------------------|-------------------------|
| Net endowment assets, beginning of year | \$ - | \$ - | \$ 41,980,436 | \$ 41,980,436 |
| Contributions | - | - | 1,892,659 | 1,892,659 |
| Investment income | - | 1,378,850 | 714,998 | 2,093,848 |
| Net depreciation | - | - | (1,175,865) | (1,175,865) |
| Other support for expenditure | - | (1,378,850) | 1,981,310 | 1,981,310 |
| Change in split interest | - | - | (35,458) | (35,458) |
| Transfers | - | - | (656,907) | (656,907) |
| Reclassification | - | - | 63,488 | 63,488 |
| Net endowment assets, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 44,764,661</u> | <u>\$ 44,764,661</u> |

Funds with Deficiencies: As a result of market declines for certain recently established endowments, the fair value of certain donor-restricted endowments was less than the historical cost value (original gift/book value) of such funds (“underwater”) by \$3,286 and \$67,882 at June 30, 2015 and 2014, respectively.

7) PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | 2015 | 2014 |
|---------------------------|---------------------|---------------------|
| Land | \$ 110,093 | \$ 110,093 |
| Vehicles | 105,986 | 105,986 |
| Building | 1,088,150 | 1,088,150 |
| Furnishings and equipment | 142,615 | 142,615 |
| Computer systems | 12,755 | 12,755 |
| | <u>\$ 1,459,599</u> | <u>\$ 1,459,599</u> |
| Accumulated depreciation | 474,582 | 416,333 |
| | <u>\$ 985,017</u> | <u>\$ 1,043,266</u> |

Depreciation expense was \$58,249 and \$56,141 for the fiscal years ended June 30, 2015 and 2014, respectively.

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

8) SPLIT INTEREST AGREEMENTS

The Foundation accepts gifts subject to split interest agreements. These gifts may be in the form of annuities, life estates, or charitable remainder trusts. At the time of receipt, a gift is recorded based upon fair value of assets donated less any applicable liabilities. Liabilities include the present value of projected future distributions to the annuity or trust beneficiaries and are discounted using discount rates based on U.S. treasury rates and actuarial assumptions in effect when the agreement originated. The terms of the agreements vary from payments made to life income beneficiary/recipients ranging from an annual amount equal to 5% of the net fair market value of trust assets determined as of the first day of the taxable year to fixed dollar amounts per year ranging from \$7,000 to \$36,000. Assets held under split interest agreements are included in long-term investments totaled \$544,579 and \$610,733 at June 30, 2015 and 2014, respectively.

9) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

| | <u>2015</u> | <u>2014</u> |
|------------------------|---------------------|---------------------|
| Periods after June 30, | <u>\$ 8,159,485</u> | <u>\$ 7,867,701</u> |

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

| | <u>2015</u> | <u>2014</u> |
|---------------------------------------|---------------------|---------------------|
| Purpose for restriction accomplished: | | |
| Academia and student activities | \$ 1,205,028 | \$ 1,078,228 |
| ASU colleges and departments | 2,673,977 | 2,516,904 |
| Total restrictions released | <u>\$ 3,879,005</u> | <u>\$ 3,595,132</u> |

10) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are available for the following purposes or periods:

| | <u>2015</u> | <u>2014</u> |
|------------|----------------------|----------------------|
| Endowments | <u>\$ 44,764,661</u> | <u>\$ 41,980,436</u> |

11) FAIR VALUES OF FINANCIAL INSTRUMENTS

FASB ASC 820-10, *Fair Value Measurements* (ASC 820-10), provides a framework for measuring fair value under GAAP. ASC 820-10 defines fair value as the exchange prices that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. Observable inputs are inputs that market participants operating within the same marketplace as the Foundation would use in pricing the Foundation's asset or liability based on independently derived and observable market data. Unobservable inputs are inputs that cannot be sourced from a broad

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

11) FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

active market in which assets or liabilities identical or similar to those of the Foundation are traded. ASC 820-10 establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 – Quoted prices in active markets for identical assets the Foundation has the ability to access at the measurement date. These types of quoted prices would include publicly traded equity securities and mutual funds traded on a major exchange.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Pricing inputs that are unobservable and significant to the fair value measurement. Inputs were not developed by the Foundation for any of these assets.

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We have evaluated the significance of transfers between levels based upon the nature of the financial instruments and size of the transfer relative to total net assets available for benefits. For the years ended June 30, 2015 and 2014, there were no transfers in or out of levels 1, 2, or 3.

The following methods and assumptions were used by the Foundation in estimating the fair value of its financial instruments, which are reported at fair value:

Certificates of deposits: The carrying amounts reported in the statements of financial position approximate fair value because the stated rates approximate current prevailing rates.

Money market funds and repurchase agreements: These funds included investments in short-term U.S. Treasury obligations with maturities of less than one year, overnight bank deposits and other short-term highly liquid debt securities. The fair values of some of these fund investments were estimated using the net asset value per share of the respective investments provided by the fund manager.

Equity securities: The fair values are based on quoted market prices on major exchanges.

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

11) FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Mutual funds: The Foundation's holdings in publicly traded mutual funds consist principally of debt and equity securities carried at their aggregate market value that is determined by quoted market prices in an active market, which represents the net asset value of shares held by the Foundation at year end.

Partnership interest: Partnership investments consist of alternative investments made in limited partnerships all of which are valued based on level 3 inputs within the investment hierarchy used in measuring fair value. Given the absence of market quotations, the fair value is estimated at the net asset value of the units held by the Foundation at year end, as reported by the investment manager and within valuation guidelines stipulated in respective investment agreements.

Guaranteed investment contract: Valued at fair value by the insurance company by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

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 count result in a different fair value measurement at the reporting date.

The following table sets forth, by level, within the fair value hierarchy, amounts recorded in the Foundation's financial statements at fair value as of June 30, 2015:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--------------------------------|----------------------|---------------------|---------------------|----------------------|
| Mutual funds: | | | | |
| U.S. equity mutual funds | \$ 27,346,187 | \$ - | \$ - | \$ 27,346,187 |
| Fixed income investments | 18,093,438 | - | - | 18,093,438 |
| Domestic small cap equities | 137,199 | - | - | 137,199 |
| International equities | 5,557,416 | - | - | 5,557,416 |
| Guaranteed investment contract | - | - | 83,998 | 83,998 |
| Partnership interest: | | | | |
| Private real estate | - | - | 2,905,260 | 2,905,260 |
| Private equity | - | - | 1,356,625 | 1,356,625 |
| Repurchase agreement | - | 5,543,759 | - | 5,543,759 |
| Certificates of deposit | - | 3,713,723 | - | 3,713,723 |
| Money market | 23,458 | | | 23,458 |
| Other | - | - | 6,648 | 6,648 |
| Total | <u>\$ 51,157,698</u> | <u>\$ 9,257,482</u> | <u>\$ 4,352,531</u> | <u>\$ 64,767,711</u> |

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

11) FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The following table sets forth, by level, within the fair value hierarchy, amounts recorded in the Foundation's financial statements at fair value as of June 30, 2014:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--------------------------------|----------------------|---------------------|---------------------|----------------------|
| Mutual funds: | | | | |
| U.S. equity mutual funds | \$ 23,416,854 | \$ - | \$ - | \$ 23,416,854 |
| Fixed income investments | 17,974,487 | - | - | 17,974,487 |
| Domestic small cap equities | 2,307,722 | - | - | 2,307,722 |
| International equities | 5,141,335 | - | - | 5,141,335 |
| Guaranteed investment contract | - | - | 87,171 | 87,171 |
| Partnership interest: | | | | |
| Private real estate | | | 2,597,870 | 2,597,870 |
| Private equity | - | | 597,440 | 597,440 |
| Repurchase agreement | | 5,366,125 | | 5,366,125 |
| Certificates of deposit | - | 3,706,896 | - | 3,706,896 |
| Other | 53,029 | - | 7,155 | 60,184 |
| Total | \$ 48,893,427 | \$ 9,073,021 | \$ 3,289,636 | \$ 61,256,084 |

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

| | <u>Fixed Income Investments</u> | <u>Real Estate/ Other</u> | <u>Guaranteed Investment Contracts</u> | <u>Partnership Interest</u> | <u>Total</u> |
|---|---|-------------------------------|--|---------------------------------|---------------------|
| Balance, July 1, 2014 | \$ - | \$ 7,155 | \$ 87,171 | \$ 3,195,310 | \$ 3,289,636 |
| Return of capital | - | - | (5,000) | (197,827) | (202,827) |
| Purchases | - | - | - | 808,404 | 808,404 |
| Investment income (expense) | - | - | 1,827 | (35,121) | (33,294) |
| Net realized/unrealized gains (losses) | - | (507) | - | 491,120 | 490,613 |
| Balance, June 30, 2015 | <u>\$ -</u> | <u>\$ 6,648</u> | <u>\$ 83,998</u> | <u>\$ 4,261,886</u> | <u>\$ 4,352,532</u> |
| Unrealized gains | <u>\$ -</u> | <u>\$ (507)</u> | <u>\$ -</u> | <u>\$ 491,120</u> | <u>\$ 490,613</u> |

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

| | <u>Fixed Income Investments</u> | <u>Real Estate/ Other</u> | <u>Guaranteed Investment Contracts</u> | <u>Partnership Interest</u> | <u>Total</u> |
|---|---|-------------------------------|--|---------------------------------|---------------------|
| Balance, July 1, 2013 | \$ 240,000 | \$ 106,710 | \$ 87,723 | \$ 298,066 | \$ 732,499 |
| Return of capital | (240,000) | (100,000) | - | (132,145) | (472,145) |
| Purchases | - | - | - | 3,124,133 | 3,124,133 |
| Investment income (expense) | - | - | 1,948 | (108,484) | (106,536) |
| Net realized/unrealized gains (losses) | - | 445 | (2,500) | 13,740 | 11,685 |
| Balance, June 30, 2014 | <u>\$ -</u> | <u>\$ 7,155</u> | <u>\$ 87,171</u> | <u>\$ 3,195,310</u> | <u>\$ 3,289,636</u> |
| Unrealized gains | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 13,740</u> | <u>\$ 13,740</u> |

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

12) INVESTMENTS VALUED AT NET ASSET VALUE

For investments in entities that calculate net asset value (“NAV”) or its equivalent whose fair value is not readily determinable, the following table provides additional information about the probability of investments being sold at amounts different from the NAV per share at June 30, 2015:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|-----------------------|-------------------|---------------------------------|---------------------------------|-------------------------------------|
| Partnership interest: | | | | |
| Private real estate | \$ 2,905,260 | \$ - | N/A | N/A |
| Private equity | \$ 1,356,625 | \$ 1,349,067 | N/A | N/A |

13) AMOUNTS HELD ON BEHALF OF ARKANSAS STATE UNIVERSITY RELATED ENTITIES

The Foundation acts in an agency capacity for funds received and held for Arkansas State University System; Arkansas State University – Jonesboro; Arkansas State University – Beebe; Arkansas State University Alumni Association; and Arkansas State University Red Wolves Foundation, Inc. (the “Agencies”). The Foundation has no discretion over the use of these funds. Any resources received in connection with such agency transactions are recorded as liabilities rather than contributions. No revenue or expense is recorded on the statements of activities for activity in these funds.

14) CONCENTRATIONS

Substantially all of the Foundation’s long-term financial instruments are held with MV Securities, an uninsured fund, which provides investment asset management for educational institutions.

In addition, accounts in a financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The amount in excess of the FDIC limit totaled \$5,044,325 as of June 30, 2015. However, \$5,043,759 of the excess is in two repurchase agreements which are collateralized by U.S. government and municipal securities.

15) RECLASSIFICATION AND INTERNAL TRANSFERS

At various times, scholarships and other restricted funds will be reclassified at the request of the donors. These reclassifications are reflected in the statements of activities.

16) MANAGEMENT AGREEMENTS

The Agencies (Note 13) and the Foundation have a memorandum of understanding whereby the Agencies loan certain endowment funds to the Foundation for the purpose of maximizing the investment yield and increasing the funds available for the Agency’s programs. The funds are managed with an asset allocation similar to that of the Foundation. The Foundation receives a management fee from the Agencies as compensation for managing the endowment funds. For the years ended June 30, 2015 and 2014, the Foundation received management fees totaling \$532,863 and \$481,524, respectively.

Arkansas State University Foundation, Inc.
Notes to the Financial Statements

16) MANAGEMENT AGREEMENTS (continued)

The Foundation also has an agreement with the University whereby they will donate the services of University employees to provide services for the Foundation. During the years ended June 30, 2015 and 2014, \$285,619 and \$313,221 worth of services were donated by the University. The services have been recognized as contributed services on the Statements of Activities.