



Arkansas State University System Foundation, Inc.

**Consolidated Financial Statements
June 30, 2023 and 2022
(With Independent Auditor's Report Thereon)**

Arkansas State University System Foundation, Inc.

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of **Arkansas State University System Foundation, Inc.** and its controlled affiliate (collectively, the Organization), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2023 and 2022, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
September 22, 2023

Consolidated Financial Statements

Arkansas State University System Foundation, Inc.

Consolidated Statements of Financial Position June 30, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 13,375,731	\$ 10,941,322
Certificates of deposit	3,556,725	3,786,700
Prepaid expenses	43,288	59,961
Contributions receivable, net	873,512	5,210,881
Grant receivable	28,537	-
Investments, at fair value	109,875,334	100,110,940
Property and equipment, net	4,871,980	2,336,507
Other assets	121,730	121,730
	\$ 132,746,837	\$ 122,568,041
TOTAL ASSETS		
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 48,891	\$ 156,641
Annuity obligations	9,000	16,000
Refundable advance	94,465	-
Due to Arkansas State University campuses	96,278	97,239
Amounts held on behalf of Arkansas State University related entities	14,723,183	14,005,686
Total Liabilities	14,971,817	14,275,566
Net Assets		
Without donor restrictions		
Undesignated	1,406,206	1,157,195
Board designated	7,039,774	6,653,735
Total without donor restrictions	8,445,980	7,810,930
With donor restrictions		
Restricted as to purposes	15,656,172	15,405,873
Restricted in perpetuity	93,672,868	85,075,672
Total with donor restrictions	109,329,040	100,481,545
Total Net Assets	117,775,020	108,292,475
TOTAL LIABILITIES AND NET ASSETS	\$ 132,746,837	\$ 122,568,041

See accompanying notes to consolidated financial statements.

Arkansas State University System Foundation, Inc.

Consolidated Statement of Activities Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Contributions	\$ 41,191	\$ 6,507,081	\$ 6,548,272
Contributions of nonfinancial assets	276,096	1,995,503	2,271,599
Investment return, net	759,679	7,900,596	8,660,275
Other income	211,677	390,613	602,290
Net assets released from restrictions	7,937,298	(7,937,298)	-
Total Revenue and Other Support	9,225,941	8,856,495	18,082,436
EXPENSES			
Program services	8,376,202	-	8,376,202
Management and general supporting services	214,689	-	214,689
Change in split-interest agreements	-	9,000	9,000
Total Expenses	8,590,891	9,000	8,599,891
INCREASE IN NET ASSETS	635,050	8,847,495	9,482,545
NET ASSETS AT BEGINNING OF YEAR	7,810,930	100,481,545	108,292,475
NET ASSETS AT END OF YEAR	\$ 8,445,980	\$ 109,329,040	\$ 117,775,020

See accompanying notes to consolidated financial statements.

Arkansas State University System Foundation, Inc.

Consolidated Statement of Activities Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Contributions	\$ 376,235	\$ 5,963,213	\$ 6,339,448
Investment loss, net	(936,574)	(11,666,040)	(12,602,614)
Other income	225,592	219,738	445,330
Net assets released from restrictions	5,566,815	(5,566,815)	-
Total Revenue and Other Support	5,232,068	(11,049,904)	(5,817,836)
EXPENSES			
Program services	5,613,073	-	5,613,073
Management and general supporting services	181,987	-	181,987
Change in split-interest agreements	-	16,000	16,000
Total Expenses	5,795,060	16,000	5,811,060
DECREASE IN NET ASSETS	(562,992)	(11,065,904)	(11,628,896)
NET ASSETS AT BEGINNING OF YEAR	8,373,922	111,547,449	119,921,371
NET ASSETS AT END OF YEAR	\$ 7,810,930	\$ 100,481,545	\$ 108,292,475

See accompanying notes to consolidated financial statements.

Arkansas State University System Foundation, Inc.

Consolidated Statements of Functional Expenses Years Ended June 30, 2023 and 2022

	<u>2023</u>			<u>2022</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Academic activities	\$ 850,554	\$ -	\$ 850,554	\$ 758,249	\$ -	\$ 758,249
Administrative support	288,946	-	288,946	325,595	-	325,595
Student activities	23,484	-	23,484	18,801	-	18,801
Transfers - ASU	3,035,056	-	3,035,056	442,317	-	442,317
Transfers - scholarships	1,732,286	-	1,732,286	1,405,932	-	1,405,932
Transfers - supplies and services	964,181	-	964,181	614,091	-	614,091
Transfers - payroll	515,887	-	515,887	438,494	-	438,494
Transfers - fixed assets	2,500	-	2,500	823,099	-	823,099
Transfers - other	104,554	-	104,554	58,544	-	58,544
Salaries and benefits	390,060	97,515	487,575	343,958	85,989	429,947
Depreciation	86,207	21,552	107,759	59,931	14,983	74,914
Other	382,487	95,622	478,109	324,062	81,015	405,077
TOTAL EXPENSES	<u>\$ 8,376,202</u>	<u>\$ 214,689</u>	<u>\$ 8,590,891</u>	<u>\$ 5,613,073</u>	<u>\$ 181,987</u>	<u>\$ 5,795,060</u>

See accompanying notes to consolidated financial statements.

Arkansas State University System Foundation, Inc.

Consolidated Statements of Cash Flows Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Total Net Assets	\$ 9,482,545	\$ (11,628,896)
Adjustments to Reconcile Increase (Decrease) in Total Net Assets to Net Cash Used by Operating Activities		
Depreciation expense	107,759	74,914
Contributions restricted for long-term investments	(2,874,216)	(2,371,762)
Contributed property and equipment	(1,747,059)	(54,570)
Gain/loss on sale of fixed assets	-	5,977
Net (appreciation) depreciation in fair value of investments	(7,343,056)	16,716,827
Change in value of split-interest agreements	3,361	20,456
Interest and dividends restricted for long-term purposes	(1,926,080)	(1,843,232)
Changes in operating assets and liabilities:		
Contributions receivable, net	4,337,369	738,062
Other receivables	(28,537)	-
Prepaid expenses	16,673	(23,977)
Other assets	-	(21,648)
Accounts payable	(107,750)	109,391
Annuity obligations	(7,000)	-
Refundable advance	94,465	-
Due to Arkansas State University campuses	(961)	(1,665)
Due to Alumni Association	-	(50)
Amounts held on behalf of Arkansas State University related entities	717,497	(2,264,027)
Net Cash Provided by (Used by) Operating Activities	725,010	(544,200)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of certificates of deposit	(292,331)	(1,550,235)
Proceeds from maturity of certificates of deposit	522,306	2,283,557
Purchases of investments	(2,424,699)	(3,114,398)
Proceeds from sale of investments	-	652,074
Purchases of property and equipment	(931,088)	(380,322)
Proceeds from sale of property and equipment	34,915	23,300
Net Cash Used by Investing Activities	(3,090,897)	(2,086,024)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	-	(28,619)
Contributions restricted for long-term investments	2,874,216	2,371,762
Interest and dividends restricted for long-term purposes	1,926,080	1,843,232
Net Cash Provided by Financing Activities	4,800,296	4,186,375
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,434,409	1,556,151
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,941,322	9,385,171
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 13,375,731	\$ 10,941,322

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

Arkansas State University System Foundation, Inc. (the Foundation) is an Arkansas nonprofit corporation chartered on March 7, 1977. The Foundation's primary purpose is to receive, solicit, accept, hold and administer private gifts for the Arkansas State University System, its campuses and related entities (collectively, thereafter referred to as "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 System and is presented in the University's consolidated financial statements.

Arkansas State University Real Estate Foundation, Inc. was organized as a nonprofit corporation under the laws of the State of Arkansas in 2012, to operate for the benefit of, to perform the functions of, or to carry out the purposes of the Foundation. The Foundation is the sole corporate member of Arkansas State University Real Estate Foundation, Inc.

The activities of the Arkansas State University Real Estate Foundation, Inc. are the responsibility of the Board of Directors, subject to the Foundation's powers and responsibilities. The Board of Directors is approved and appointed by the corporate member. The Board of Directors serve three-year terms and appointments are staggered.

Basis of Accounting and Financial Statement Presentation

These consolidated financial statements include the balances and transactions of the Foundation and Arkansas State University Real Estate Foundation, Inc. and have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Intercompany transactions, if any, have been eliminated in consolidation. Collectively, the Foundation and Arkansas State University Real Estate Foundation, Inc. are hereinafter referred to as the "Organization."

The Organization reports information regarding its financial position and activities according to the following two classes of net assets:

Net Assets without Donor Restriction—Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

Net Assets with Donor Restriction—Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Cash and Cash Equivalents and Certificates of Deposit

Cash and cash equivalents include demand deposit accounts held at multiple financial institutions. For purposes of presentation in the consolidated statements of cash flows, cash equivalents are defined as liquid securities with original maturities of three months or less.

The Organization has two agreements with one financial institution 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.

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents and Certificates of Deposit (Continued)

At times during the years ended June 30, 2023 and 2022, cash and cash equivalents and certificates of deposit exceeded amounts insured by the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC) and were not collateralized. In the event of an institutional failure, account balances exceeding FDIC or SIPC insurance limits may not be recoverable. For the years ended June 30, 2023 and 2022, the Foundation's balances maintained at financial institutions and investment banking firms totaled approximately \$17,131,000 and \$14,759,000, respectively. Of these balances, approximately \$2,322,000 and \$1,628,000, respectively were not insured or collateralized at June 30, 2023 and 2022.

Investments

The Organization's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. Changes in fair value are recorded in the period in which they occur. See Note 2 for further discussion of fair value measurements. Realized gains and losses on sales of securities are recognized on the transaction trade dates. Dividend income is recorded on the ex-dividend date, and interest income is accrued as it is earned. Investment return presented on the consolidated statements of activities includes dividends, interest, other investment income, as well as realized and unrealized gains and losses, and is net of investment expenses.

Contributed investment securities are recorded based on the average of the high and low market prices on the date the investment securities are received. Generally, the Organization liquidates contributed investment securities on the same day they are received, or as soon as reasonably possible thereafter. The difference between the initial recorded value and the sales proceeds is included in investment return on the consolidated statements of activities.

Property and Equipment

Purchased property and equipment are recorded at historical cost, while contributed property and equipment are recorded at their estimated fair value at the date of receipt. Contributions of property and equipment are reported as unrestricted support, unless the donor has restricted the use of the contributed asset for specified purpose. Major renewals and improvements in excess of \$2,500 are capitalized, while normal repairs and maintenance are expensed in the period incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the depreciable assets, which range from 3 to 30 years.

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Support and Revenue Recognition

Contributions, including unconditional promises to give, are recognized as support in the consolidated statements of activities in the period received or when the Organization becomes aware that a promise to give has been made, whichever occurs first. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Promises to give which are scheduled to be received after one year are discounted at a rate commensurate with the risks involved. Amortization of the discount is recorded as additional support over the term of the related promise to give. The Organization uses the allowance method to determine uncollectible contributions receivable. The allowance is based on historical experience and management's analysis of the specific promises made.

The Organization recognizes contributed nonfinancial assets within support, which typically consist of contributed services from the University and property contributed by donors for educational use. The value of the contributed services provided by the University is determined based on the costs of the salaries and benefits that are paid by the University for services rendered on behalf of the Organization. The Organization estimates the market value of property received by members of the Universities' community based on the appraised value. There are generally no specific donor restrictions associated with the gifts.

Functional Expenses

The Organization allocates its expenses on a functional basis among program and supporting services. Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service according to their natural expenditure classification. Other expenses that are common to several functions are allocated to program and supporting services. Those expenses include certain salaries and benefits, depreciation and various other expenses. Salaries and benefits are allocated based on estimates of time worked while depreciation and other expenses are allocated based on estimated use.

Estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the consolidated financial statements. Accordingly, actual results could differ from those estimates.

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Foundation and the Arkansas State University Real Estate Foundation are tax-exempt foundations under Section 501(c)(3) of the Internal Revenue Code and are not private foundations within the meaning of Section 509(a) of the Code.

Accounting standards require the Organization to evaluate tax positions and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Organization has analyzed the tax positions taken and has concluded that as of June 30, 2023 and 2022, there are no uncertain positions taken or expected to be taken that would require the recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Organization may be subject to audit by the Internal Revenue Service; however, there are currently no audits for any tax periods in progress.

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. The new guidance requires lessees to record a right-of-use asset and a corresponding liability equal to the present value of future rental payments on their statement of financial position for all leases with a term greater than one year and is effective for the Organization on July 1, 2022. As of June 30, 2023, implementation of this standard did not have a significant impact on the Organization's financial statements.

NOTE 2: FAIR VALUE MEASUREMENTS

Entities with total assets of \$100 million or more are generally required to disclose certain information about the estimated fair value of financial instruments held as of the reporting date. The fair value of a financial instrument is the current amount that would be exchanged between willing parties other than in a forced liquidation. Disclosures about the fair value of financial instruments are based on pertinent information available to management. Accordingly, management's estimate of fair value may not necessarily be indicative of amounts that could be realized upon disposition of the financial instruments. The Organization's financial instruments include cash and cash equivalents, certificates of deposit, contributions receivable, investments, accounts payable, annuity obligations, amounts due to related entities and a note payable. The carrying amount reported in the consolidated statements of financial position for cash and cash equivalents, certificates of deposit, accounts payable, and amounts due to related entities approximate their fair value due to the short maturity of those instruments. The carrying amount of the note payable approximates fair value because the Organization can obtain similar debt at the same terms.

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 2: FAIR VALUE MEASUREMENTS (Continued)

The framework for measuring fair value provides 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) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include the following:

- 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;
- 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 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Not Classified No readily determinable fair value measurement of investments. Measured at fair value using the net asset value per share (or its equivalent) practical expedient. Investments not classified in the fair value hierarchy.

The Organization uses appropriate valuation techniques based on available inputs to measure the fair value of assets. When available, the Organization measures fair value using Level 1 inputs, because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 2: FAIR VALUE MEASUREMENTS (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in valuation methodologies used at June 30, 2023 and 2022.

The fair values of mutual funds are determined based on the net asset value of shares held by the Organization at year end. Mutual funds held by the Organization are open ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

The fair values of exchange traded funds are determined based on the closing price as reported by the fund. The funds are priced continuously throughout the day but are required to publish their NAV at market close based on the value of the underlying securities.

The fair values of equities are determined based on the closing price reported on the active market in which the individual securities are traded.

The fair values of bonds and treasuries are based upon quotes from independent pricing vendors based upon independent pricing models or other model-based valuation techniques such as the present value of the stream of expected cash flows adjusted for the securities credit rating and other factors such as credit loss assumptions.

The fair values of partnership interests are estimated at the net asset value of the units held by the Organization at year end, as reported by the investment manager and within valuation guidelines stipulated in respective investment agreements, given the absence of market quotations. Net asset value is used as a practical expedient as permitted under generally accepted accounting principles.

The fair value of the guaranteed investment contract is determined 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 Organization 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.

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 2: FAIR VALUE MEASUREMENTS (Continued)

The following tables set forth, by level, within the fair value hierarchy, amounts recorded in the Organization's financial statements at fair value at June 30, 2023 and 2022:

	2023				Total
	Level 1	Level 2	Level 3	Not Classified	
Mutual funds					
Real estate	\$ 1,627,199	\$ -	\$ -	\$ -	\$ 1,627,199
Money market	3,503,366	-	-	-	3,503,366
Fixed income	18,624,995	-	-	-	18,624,995
Exchange traded funds					
U.S. equities	19,575,535	-	-	-	19,575,535
International equities	16,782,332	-	-	-	16,782,332
Real assets	5,316,127	-	-	-	5,316,127
Fixed income	11,254,069	-	-	-	11,254,069
Equity securities					
U.S. equities	15,406,161	-	-	-	15,406,161
International equities	5,347,563	-	-	-	5,347,563
Partnership interest					
Private real estate	-	-	-	1,128,147	1,128,147
Private equity	-	-	-	1,534,836	1,534,836
Mezzanine debt	-	-	-	1,887,076	1,887,076
Private secondary debt and financing	-	-	-	2,611,281	2,611,281
Hedge Fund	-	-	-	5,196,472	5,196,472
Guaranteed investment contract	-	-	80,175	-	80,175
Total	\$ 97,437,347	\$ -	\$ 80,175	\$ 12,357,812	\$ 109,875,334

(Continued)

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 2: FAIR VALUE MEASUREMENTS (Continued)

	2022				Total
	Level 1	Level 2	Level 3	Not Classified	
Mutual funds					
Real estate	\$ 1,543,154	\$ -	\$ -	\$ -	\$ 1,543,154
Money market	1,525,671	-	-	-	1,525,671
Fixed income	11,423,934	-	-	-	11,423,934
Exchange traded funds					
U.S. equities	20,684,258	-	-	-	20,684,258
International equities	14,529,692	-	-	-	14,529,692
Real assets	4,543,810	-	-	-	4,543,810
Fixed income	13,986,456	-	-	-	13,986,456
Equity securities					
U.S. equities	15,029,955	-	-	-	15,029,955
International equities	5,437,184	-	-	-	5,437,184
Partnership interest					
Private real estate	-	-	-	1,037,856	1,037,856
Private equity	-	-	-	1,750,785	1,750,785
Mezzanine debt	-	-	-	1,872,114	1,872,114
Private secondary debt and financing	-	-	-	1,813,384	1,813,384
Hedge Fund	-	-	-	4,849,310	4,849,310
Guaranteed investment contract	-	-	83,377	-	83,377
Total	\$ 88,704,114	\$ -	\$ 83,377	\$ 11,323,449	\$ 100,110,940

NOTE 3: CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable at June 30 are as follows:

	2023	2022
Amounts due in		
Less than one year	\$ 487,894	\$ 338,100
One to five years	539,444	5,341,494
Five to ten years	8,000	-
	<u>1,035,338</u>	<u>5,679,594</u>
Less unamortized discount	(104,297)	(174,901)
Less allowance for uncollectible receivables	<u>(57,529)</u>	<u>(293,812)</u>
Contributions receivable, net	<u>\$ 873,512</u>	<u>\$ 5,210,881</u>

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 3: CONTRIBUTIONS RECEIVABLE, NET (Continued)

Contributions receivable which are scheduled to be received after one year are reported at the present value of estimated future cash flows using a discount rate of five percent.

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment at June 30 consists of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 263,592	\$ 110,092
Vehicles	183,823	95,145
Building	4,123,620	1,759,993
Works of art	968,893	968,893
Furnishings and equipment	139,975	139,975
	<u>5,679,903</u>	<u>3,074,098</u>
Accumulated depreciation	<u>(807,923)</u>	<u>(737,591)</u>
Total	<u>\$ 4,871,980</u>	<u>\$ 2,336,507</u>

NOTE 5: ENDOWMENTS

The Organization's endowments consist of approximately 500 individual funds established for a variety of purposes. The endowments include both donor-restricted endowment funds and a fund designated by the Board of Directors (the Board). 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.

The Board has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Organization classifies as net assets with donor restrictions the original value of gifts donated to the endowments, the original value of subsequent gifts to the endowments, accumulations to the endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund and 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 use.

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 5: ENDOWMENTS (Continued)

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 Organization and the University, and (7) the Organization's investment policies.

The Organization has adopted investment and spending policies, approved by the Board, 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 to meet the needs of the University while growing the funds if possible. 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.

The Organization has a spending policy of appropriating for distribution each year 4% of its endowment funds' average fair value of the prior five calendar year-ends for most of its endowments. In establishing this policy, the Organization 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 Organization 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 Organization'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.

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 5: ENDOWMENTS (Continued)

Changes in endowment net assets as of June 30, 2023, are as follows:

	Board Designated Endowment Funds	Restricted Endowment Funds	Total
Endowment net assets July 1, 2022	\$ 6,653,735	\$ 86,307,521	\$ 92,961,256
Contributions	23,646	2,850,570	2,874,216
Investment return, net	532,253	7,064,460	7,596,713
Other income	-	7,204	7,204
Appropriation of endowments for expenditure	(169,860)	(1,223,385)	(1,393,245)
Change in split-interest agreements	-	(9,000)	(9,000)
Endowment net assets, June 30, 2023	<u>\$ 7,039,774</u>	<u>\$ 94,997,370</u>	<u>\$ 102,037,144</u>

Changes in endowment net assets as of June 30, 2022, are as follows:

	Board Designated Endowment Funds	Restricted Endowment Funds	Total
Endowment net assets, July 1, 2021	\$ 7,447,451	\$ 97,606,794	\$ 105,054,245
Contributions	266,762	2,371,762	2,638,524
Investment loss, net	(935,756)	(11,675,414)	(12,611,170)
Other income	10,096	88	10,184
Appropriation of endowments for expenditure	(134,818)	(1,979,709)	(2,114,527)
Change in split-interest agreements	-	(16,000)	(16,000)
Endowment net assets, June 30, 2022	<u>\$ 6,653,735</u>	<u>\$ 86,307,521</u>	<u>\$ 92,961,256</u>

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 6: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of endowment income and contributions received with donor-imposed restrictions limiting the Organization's use of contributed assets to a later period, a specific purpose or both. The amounts are transferred to net assets without donor restrictions in the period the donor-imposed restrictions expire or the donor-stipulated purpose has been fulfilled by the Organization.

Net assets with donor restrictions are available for the following purposes at June 30, 2023:

	Restricted as to Purposes	Restricted in Perpetuity
Facilities	\$ 3,460,147	\$ 5,571,274
Institutional support	8,355,632	18,854,260
Faculty/staff support	66,055	10,488,558
Research	230,749	1,970,643
Scholarships and awards	1,631,739	51,434,781
Student services	730,177	3,067,267
Community outreach	1,181,673	2,286,085
Total	\$ 15,656,172	\$ 93,672,868

Net assets with donor restrictions are available for the following purposes at June 30, 2022:

	Restricted as to Purposes	Restricted in Perpetuity
Facilities	\$ 4,457,090	\$ 9,874,900
Institutional support	7,354,786	16,853,688
Faculty/staff support	62,911	10,726,286
Research	210,995	1,811,923
Scholarships and awards	1,637,704	43,042,915
Student services	484,435	698,760
Community outreach	1,197,952	2,067,200
Total	\$ 15,405,873	\$ 85,075,672

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 7: RELATED PARTY TRANSACTIONS

During the year ended June 30, 2022, the Organization entered into a long-term agreement with Arkansas State University – Newport for the purchase and renovation of real residential property. The Organization made an initial advance of \$275,000, with additional advances totaling approximately \$120,000 through a receivable and payable between unrestricted and discretionary funds for the year ended June 30, 2022. All advances bear interest at a rate of 2.38% compounded monthly. During the year ended June 30, 2023, and 2022, interest earned on the related note was approximately \$2,500 and \$5,400, respectively. The related interest income is recorded in other income on the consolidated statements of activities. No receivable or liability is recorded on the consolidated statements of financial position due to the interfund relationship.

NOTE 8: AMOUNTS HELD ON BEHALF OF ARKANSAS STATE UNIVERSITY RELATED ENTITIES

The Organization 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 Organization 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 in the consolidated statements of activities for activity in these funds.

NOTE 9: CONTRIBUTED NONFINANCIAL ASSETS

During the years ended June 30, 2023 and 2022, employees of the University were provided to the Organization to oversee the operations. For the years ended June 30, 2023 and 2022, the Organization reimbursed the University approximately \$220,000 and \$125,000, respectively for salary expenses. The University contributed in-kind salary expense of approximately \$268,000 and \$304,000 for the years ended June 30, 2023 and 2022, respectively. These in-kind contributions are included in contributions and expenses in the consolidated statements of activities.

During the year ended June 30, 2023, the Organization purchased a commercial building and land with an appraised value of \$2,488,950. The Organization paid approximately \$741,891. The seller donated the remaining value of the property to the Organization. The remaining \$1,747,059 is recorded in contributed nonfinancial assets on the consolidated statements of activities.

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 10: MANAGEMENT AGREEMENTS

The Agencies and the Organization have a memorandum of understanding whereby the Agencies loan certain endowment funds to the Organization 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 Organization. The Organization receives a management fee from the Agencies as compensation for managing the endowment funds. For the years ended June 30, 2023 and 2022, the Organization received management fees totaling approximately \$1,030,500 and \$1,119,000, respectively.

NOTE 11: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization monitors its liquidity so that it is able meet its operating needs and contractual commitments while maximizing the investment of its excess operating cash.

The Organization has the following financial assets that could readily be made available within one year of the consolidated statements of financial position to fund expenses without limitations:

	2023	2022
Cash and cash equivalents	\$ 13,375,731	\$ 10,941,322
Certificates of deposit	3,556,725	3,786,700
Contributions receivable, net	873,512	5,210,881
Investments, at fair value	109,875,334	100,110,940
	127,681,302	120,049,843
Less cash and cash equivalents held on behalf of Arkansas State University related entities	(525,975)	(517,765)
Less certificates of deposit with maturity greater than one year	(1,041,418)	(752,982)
Less contributions due in more than one year	(547,444)	(5,341,494)
Less endowment assets	(102,037,144)	(92,961,256)
Add back appropriations for years ended June 30, 2024 and 2023	3,143,661	3,019,539
	(101,008,320)	(96,553,958)
Financial assets available to meet cash needs for general expenditures within one year	\$ 26,672,982	\$ 23,495,885

Although not expected to be needed, the Organization also has available for spending without limitation board-designated net assets of \$7,039,774 and \$6,653,735, respectively, at June 30, 2023 and 2022. These resources are invested for long-term appreciation and current income, but may be spent at the discretion of the Board. See Notes 2 and 5 for further information about the Organization’s investments and board-designated net assets, respectively.

Arkansas State University System Foundation, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 12: RISKS AND UNCERTAINTIES

Market disruptions associated with current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect assets and thus performance of the investments; at this time an aggregate effect on assets and performance cannot be reasonably estimate. Management is continuing to monitor these developments and evaluate other impacts they may have on investments.

NOTE 13: SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 22, 2023, the date that the financial statements were available to be issued.