



Arkansas State University System Foundation, Inc.

FINANCIAL STATEMENTS

June 30, 2017

(With Independent Auditor's Report Thereon)

**Thomas &
Thomas LLP**

Certified Public Accountants

Arkansas State University System Foundation, Inc.

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 – 2
FINANCIAL STATEMENTS	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6 – 7
Notes to Financial Statements	8 – 20

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of **Arkansas State University System Foundation, Inc.** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year 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.

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

Opinion

In our opinion, the financial statements referred to on the preceding page present fairly, in all material respects, the financial position of **Arkansas State University System Foundation, Inc.** as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Policy

As discussed in Note 2(k) to the financial statements, management has elected to change the method of recognizing expenses from scholarship offers to prospective students made by Arkansas State University System schools. This change in method of expense recognition has been retrospectively applied to previously reported amounts. Our opinion is not modified with respect to this matter.

Correction of Error

As discussed in Note 2(k) to the financial statements, management has identified certain errors resulting in misclassification of previously reported amounts of contributions, investment return, appropriations of expenses and resulting net asset balances. Adjustments to previously reported amounts have been made to correct these errors. Our opinion is not modified with respect to this matter.

Thomas & Thomas LLP

Certified Public Accountants

October 20, 2017
Little Rock, Arkansas

Financial Statements

Arkansas State University System Foundation, Inc.

STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS

Cash and cash equivalents	\$ 71,319
Repurchase agreements	5,719,791
Certificates of deposit	4,242,475
Prepaid expenses	26,202
Contributions receivable, net	1,571,511
Investments, at fair value	67,146,790
Property and equipment, net	1,614,251
Other assets	<u>2,816</u>

TOTAL ASSETS

\$ 80,395,155

LIABILITIES AND NET ASSETS

Accounts payable	\$ 54,359
Annuity obligations	16,000
Due to Alumni Association	1,043
Amounts held on behalf of Arkansas State University related entities	12,540,558
Note payable	<u>37,645</u>
Total Liabilities	<u>12,649,605</u>

NET ASSETS

Unrestricted	6,369,582
Temporarily restricted	9,076,969
Permanently restricted	<u>52,298,999</u>
Total Net Assets	<u>67,745,550</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 80,395,155

See accompanying notes to financial statements.

Arkansas State University System Foundation, Inc.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Contributions	\$ 4,081,543	\$ 2,642,857	\$ 1,315,945	\$ 8,040,345
Investment return, net	229,680	1,066,488	5,541,006	6,837,174
Other income	116,615	260,283	1,602	378,500
Net assets released from restrictions	3,442,610	(3,442,610)	-	-
	7,870,448	527,018	6,858,553	15,256,019
EXPENSES AND LOSSES				
Program Services				
Academic activities	293,749	-	-	293,749
Administrative	306,937	-	-	306,937
Student activities	32,046	-	-	32,046
Transfers to Arkansas State University	3,159,110	-	-	3,159,110
Supporting Services				
Management and general	571,522	-	-	571,522
Change in Split Interest Agreements	-	-	28,761	28,761
	4,363,364	-	28,761	4,392,125
INCREASE IN NET ASSETS	3,507,084	527,018	6,829,792	10,863,894
NET ASSETS AT BEGINNING OF YEAR (AS RESTATED)	2,862,498 ⁽¹⁾	8,549,951 ⁽¹⁾	45,469,207 ⁽¹⁾	56,881,656 ⁽¹⁾
NET ASSETS AT END OF YEAR	\$ 6,369,582	\$ 9,076,969	\$ 52,298,999	\$ 67,745,550

⁽¹⁾Amount restated from prior year reported amounts due to change in accounting policy and/or correction of errors as discussed in Note 2(k).

See accompanying notes to financial statements.

Arkansas State University System Foundation, Inc.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 10,863,894
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided by Operating Activities	
Depreciation expense	50,197
Contributions restricted for long-term investments	(1,315,945)
Contributions of property and equipment	(692,435)
Loss on sale of property and equipment	272
Net appreciation in fair value of investments	(6,197,551)
Change in value of split-interest agreements	11,527
Interest and dividends restricted for long-term purposes	(239,647)
Changes in operating assets and liabilities:	
Contributions receivable	289,282
Prepaid expenses	33,272
Other assets	5,602
Accounts payable	(43,156)
Annuity obligations	12,761
Funds held for others	978,374
Net Cash Provided by Operating Activities	3,756,447

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of certificates of deposit	(1,459,764)
Proceeds from maturity of certificates of deposit	1,180,479
Purchases of investments	(5,751,524)
Proceeds from sale of investments	305,057
Proceeds from sale of property and equipment	200
Net Cash Used by Investing Activities	(5,725,552)

CASH FLOWS FROM FINANCING ACTIVITIES

Contributions restricted for long-term investments	1,315,945
Interest and dividends restricted for long-term purposes	239,647
Net Cash Provided for Financing Activities	1,555,592

NET DECREASE IN CASH, CASH EQUIVALENTS

AND REPURCHASE AGREEMENTS	(413,513)
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CASH, CASH EQUIVALENTS AND REPURCHASE AGREEMENTS, BEGINNING OF YEAR

6,204,623

CASH, CASH EQUIVALENTS AND REPURCHASE AGREEMENTS, END OF YEAR

\$ 5,791,110

(Continued)

See accompanying notes to financial statements.

Arkansas State University System Foundation, Inc.

STATEMENT OF CASH FLOWS *(Continued)*

Year Ended June 30, 2017

RECONCILIATION OF CASH, CASH EQUIVALENTS AND REPURCHASE

AGREEMENTS TO STATEMENT OF NET POSITION

Cash and cash equivalents	\$ 71,319
Repurchase agreements	<u>5,719,791</u>

TOTAL CASH, CASH EQUIVALENTS AND REPURCHASE AGREEMENT

\$ 5,791,110

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS

Additions to property and equipment included in note payable	<u>\$ 37,645</u>
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See accompanying notes to financial statements.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: NATURE OF BUSINESS

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 and is presented in the University's consolidated financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Foundation have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

(b) Basis of Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets - unrestricted, temporarily restricted and permanently restricted, as applicable.

(c) Cash and Cash Equivalents, Certificates of Deposit and Repurchase Agreements

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

The Foundation has three agreements with three 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.

At times during the year ended 2017, cash and cash equivalents, certificates of deposit and repurchase agreements balances 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 year ended June 30, 2017, the Foundation's balances maintained at financial institutions and investment banking firms totaled approximately \$12,322,000. Of this amount, approximately \$705,000 was not insured or collateralized at June 30, 2017.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Investments

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. See Note 4 for further discussion of fair value measurements.

Purchases and sales are recorded on the trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized. All other investment income and gains restricted by donors are reported as increases in permanently restricted net assets or temporarily restricted net assets, depending on the nature of the restrictions.

(e) 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.

(f) Contributions

Contributions, including unconditional promises to give, are recognized as support in the statement of activities in the period received or when the Foundation becomes aware that a promise to give has been made, whichever occurs first.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement 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 Foundation 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.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Donated Services

Donated services are recognized as contributions only if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by individuals possessing those skills and would typically be purchased if not provided by donation. During the year ended June 30, 2017, eight employees of the University were provided to the Foundation to oversee the operations. For the year ended June 30, 2017, the Foundation reimbursed the University approximately \$90,000 for salary expense. The University contributed in-kind salary expense of \$314,940 for the year ended June 30, 2017. These in-kind contributions are included in contributions and in supporting expenses in the statement of activities.

(h) Income Taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation within the meaning of Section 509(a) of the Code.

Accounting standards require the Foundation to evaluate tax positions and recognize a tax liability (or asset) if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Foundation has analyzed the tax positions taken and has concluded that as of June 30, 2017, 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 financial statements. The Foundation may be subject to audit by the Internal Revenue Service; however there are currently no audits for any tax periods in progress.

(i) Estimates

The preparation of 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 financial statements. Accordingly, actual results could differ from those estimates.

(j) Recently Issued Accounting Standards

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Board (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The purpose of ASU No. 2016-14 is to amend existing financial reporting standards applicable to not-for-profit entities to improve the usefulness, relevance and clarity of information presented in financial statements and to enhance the information presented in the notes thereto. This new standard, which becomes effective for fiscal years beginning after December 15, 2017, requires the following:

- Presentation of two classes of net assets – net assets with donor restrictions and net assets without donor restrictions.
- Elimination of the requirement to present a reconciliation of cash flows using the indirect method if the organization elects to use the direct method for purposes of preparing the statement of cash flows.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Recently Issued Accounting Standards (Continued)

- Enhanced disclosures about governing board designations and other self-imposed limits on the use of resources, as well as the composition of net assets with donor restrictions at the end of the period and how those restrictions affect the use of resources.
- New disclosures containing qualitative information communicating how liquid resources are managed to meet cash needs for general expenditures within one year of the financial reporting date and quantitative information communicating the availability of resources to meet cash needs for general expenditures within one year of the financial reporting date.
- Presentation of expenses by natural and functional classification, either on the statement of activities, in a separate statement or in the notes to the financial statements.
- Reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhanced disclosures about underwater endowments.
- Enhanced disclosures about the method(s) used to allocate costs among program and support functions.
- Reporting of investment return net of external and direct internal investment expenses.

While this new standard will significantly impact the presentation of the financial statements and the content of disclosures in the notes to the financial statements, it is not expected to have a material impact on the recording or measurement of amounts presented therein.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The standard will be effective for fiscal years beginning after December 15, 2016, and must be applied retrospectively. Earlier application is permitted. The Foundation is currently evaluating the effect that the updated standard will have on the financial statement disclosures.

(k) Restatement of Amounts Reported in Previously Issued Financial Statements

Change in Accounting Policy

During the year ended June 30, 2017, management performed an evaluation of expense recognition policies as applied to scholarships offered by the University to prospective students. Previously, an expense and liability were recognized as the Foundation received notification from the University that a scholarship had been offered to a prospective student. Management believed that this method of

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Restatement of Amounts Reported in Previously Issued Financial Statements (Continued)

Change in Accounting Policy (Continued)

expense recognition did not accurately reflect the scholarship process due to the fact that the Foundation would not actually reimburse the University until a scholarship offer had been accepted. Therefore, it was determined that expense would be recognized as the scholarships were actually accepted. The beginning temporarily restricted and permanently restricted net assets as of July 1, 2016 have been restated by \$123,096 and \$393,200, respectively.

Correction of Error

The Foundation's June 30, 2016 financial statements reported \$2,264,840 and \$45,673,665 of unrestricted net assets and permanently restricted net assets, respectively. During the year ended June 30, 2017, management of the Foundation determined that the classification of certain restricted funds were incorrect. Unrestricted net assets were increased \$597,658 and permanently restricted net assets were decreased \$597,658, respectively.

Change in Net Assets, Beginning of Year

Beginning net assets have been restated to reflect \$2,862,498, \$8,549,951 and \$45,469,207 of unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, respectively, for the change in accounting policy and a correction of error.

NOTE 3: INVESTMENTS

The fair values of the Foundation's portfolio of investments as of June 30 include the following:

Money market funds	\$ 1,478,266
U.S. equity mutual funds	31,957,499
International equities mutual funds	6,740,452
Fixed income investments	20,585,542
Guaranteed investment contract	82,856
Partnership interests	5,288,354
Negotiable certificates of deposit	<u>1,013,821</u>
Total	<u>\$ 67,146,790</u>

Investment return consists of the following for the year ended June 30, 2017:

Interest and dividend income	\$ 1,783,803
Net realized and unrealized gains (losses)	5,087,912
Investment fees	<u>(34,541)</u>
Total investment return	<u>\$ 6,837,174</u>

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: FAIR VALUE MEASUREMENTS

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.

The Foundation uses appropriate valuation techniques based on available inputs to measure the fair value of assets. When available, the Foundation 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.

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, 2017.

The fair values of mutual funds are determined based on the net asset value of shares held by the Foundation at year end. Mutual funds held by Foundation 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 Foundation are deemed to be actively 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.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: FAIR VALUE MEASUREMENTS (Continued)

The fair values of partnership interests are 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, given the absence of market quotations.

The fair values of negotiable certificates of deposits are determined by discounting expected cash flows based on current yields of similar instruments with comparable durations, considering the credit-worthiness of the issuer.

The fair value of 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 Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. Changes in valuation techniques may result in transfer in or out of an assigned level within the disclosure hierarchy. The Foundation had no transfer of investments between Levels 1, 2 or 3 during the year ended June 30, 2017.

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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
U.S. equity mutual funds	\$ 31,957,499	\$ -	\$ -	\$ 31,957,499
Fixed income investments	6,682,317	-	-	6,682,317
International equities	6,740,452	-	-	6,740,452
Money market	1,478,266	-	-	1,478,266
Bonds and treasuries	13,903,225	-	-	13,903,225
Partnership interest				
Private real estate	-	-	2,526,138	2,526,138
Private equity	-	-	1,682,190	1,682,190
Mezzanine debt	-	-	1,037,543	1,037,543
Private secondary debt and financing	-	-	36,521	36,521
Energy	-	-	5,962	5,962
Negotiable certificates of deposit	-	1,013,821	-	1,013,821
Guaranteed investment contract	-	-	82,856	82,856
Total	<u><u>\$ 60,761,759</u></u>	<u><u>\$ 1,013,821</u></u>	<u><u>\$ 5,371,210</u></u>	<u><u>\$ 67,146,790</u></u>

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: FAIR VALUE MEASUREMENTS (Continued)

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30, 2017:

	<u>Other</u>	<u>Guaranteed Investment Contract</u>	<u>Partnership Interests</u>	<u>Total</u>
Balance, July 1, 2016	\$ 5,861	\$ 85,690	\$ 4,612,095	\$ 4,703,646
Return of capital	(5,861)	(4,500)	(305,057)	(315,418)
Purchases	-	-	681,528	681,528
Investment income	-	1,666	131,137	132,803
Net realized/unrealized gains	-	-	168,651	168,651
Balance, June 30, 2017	<u>\$ -</u>	<u>\$ 82,856</u>	<u>\$ 5,288,354</u>	<u>\$ 5,371,210</u>

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, 2017:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Partnership interest				
Private real estate	\$ 2,526,138	\$ -	N/A	N/A
Private equity	\$ 1,682,190	\$ 438,765	N/A	N/A
Mezzanine debt	\$ 1,037,543	\$ 202,840	N/A	N/A
Private secondary debt and financing	\$ 36,521	\$ 1,940,000		
Energy	\$ 5,962	\$ -	N/A	N/A

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS June 30, 2017

NOTE 5: CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable at June 30, 2017 are as follows:

Amounts due in	
Less than one year	\$ 863,533
One to five years	871,104
	<u>1,734,637</u>
Less unamortized discount	(75,269)
Less allowance for uncollectible receivables	<u>(87,857)</u>
Contributions receivable, net	<u>\$ 1,571,511</u>

Contributions receivable with due dates extending beyond one year are discounted using Treasury Bill rates for similar term investments. The applicable rates at June 30, 2017 were .55% to 1.89%. At June 30, 2017, three donors represented 65% of contributions receivable.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2017 consist of the following:

Land	\$ 110,092
Vehicles	109,596
Building	1,088,150
Works of art	692,435
Furnishings and equipment	139,975
Computer systems	12,755
	<u>2,153,003</u>
Accumulated depreciation	<u>(538,752)</u>
Total	<u>\$ 1,614,251</u>

NOTE 7: 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.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: ENDOWMENTS (Continued)

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 Board of Directors of the Foundation (the Board), 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 320 individual funds established for a variety of purposes. The endowments include both donor restricted endowment funds and a fund designated by the Board and a member of the Agencies. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board has interpreted UPMIFA 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.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: ENDOWMENTS (Continued)

Interpretation of Relevant Law (Continued)

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.

Investment Return Objectives, Risk Parameters and Strategies

The Foundation has adopted investment and spending policies, approved by the Board of Directors, 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 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 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 4% 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.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS June 30, 2017

NOTE 7: ENDOWMENTS (Continued)

Changes in endowment net assets as of June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowments</u>
Donor-restricted endowments	\$ -	\$ -	\$ 45,469,207	\$ 45,469,207
Board-designated endowments	225,517	-	-	225,517
Total endowment net assets, beginning of year	225,517	-	45,469,207	45,694,724
Contributions	3,691,481	-	1,315,945	5,007,426
Investment income, net	17,048	1,066,488	239,647	1,323,183
Net appreciation in fair value of investments	38,217	-	5,301,359	5,339,576
Other income	-	-	1,602	1,602
Appropriation of endowments for expenditure	-	(1,066,488)	-	(1,066,488)
Change in split interest agreements	-	-	(28,761)	(28,761)
Endowment net assets, end of year	<u>\$ 3,972,263</u>	<u>\$ -</u>	<u>\$ 52,298,999</u>	<u>\$ 56,271,262</u>

NOTE 8: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of endowment income and contributions received with donor-imposed restrictions limiting the Foundation's use of contributed assets to a later period, a specific purpose or both.

Temporarily restricted net assets are available for the following purposes at June 30, 2017:

Facilities	\$ 1,136,275
Institutional support	5,559,878
Faculty/staff support	72,260
Research	19,107
Scholarships and awards	1,242,814
Student services	98,494
Community outreach	948,141
Total	<u>\$ 9,076,969</u>

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 9: PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of endowment fund investments to be held indefinitely, the income of which is expendable for the following purposes at June 30, 2017:

Facilities	\$ 5,593,870
Institutional support	8,342,239
Faculty/staff support	10,286,345
Scholarships and awards	25,244,000
Student services	414,193
Community outreach	<u>2,418,352</u>
Total	<u>\$ 52,298,999</u>

NOTE 10: 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 statement of activities for activity in these funds.

NOTE 11: 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 statement of activities.

NOTE 12: MANAGEMENT AGREEMENTS

The Agencies 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 year ended June 30, 2017, the Foundation received management fees totaling \$613,411.

NOTE 13: SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 20 2017, the date that the financial statements were available to be issued.