



Arkansas State University System Foundation, Inc.

FINANCIAL STATEMENTS
June 30, 2018 and 2017
(With Independent Auditor's Report Thereon)

**Thomas &
Thomas LLP**

Certified Public Accountants

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

We have audited the accompanying financial statements of **Arkansas State University System Foundation, Inc.** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2018 and 2017, and 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.

Thomas & Thomas LLP

Certified Public Accountants

September 25, 2018
Little Rock, Arkansas

Financial Statements

Arkansas State University System Foundation, Inc.

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 227,902	\$ 71,319
Repurchase agreements	6,043,582	5,719,791
Certificates of deposit	3,990,887	4,242,475
Prepaid expenses	29,022	26,202
Contributions receivable, net	5,609,796	1,571,511
Investments, at fair value	79,174,080	67,146,790
Property and equipment, net	1,782,497	1,614,251
Other assets	8,572	2,816
TOTAL ASSETS	\$ 96,866,338	\$ 80,395,155
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 155,066	\$ 54,359
Annuity obligations	16,000	16,000
Due to Alumni Association	923	1,043
Amounts held on behalf of Arkansas State University related entities	13,256,306	12,540,558
Note payable	25,717	37,645
Total Liabilities	13,454,012	12,649,605
NET ASSETS		
Unrestricted	6,476,608	6,369,582
Temporarily restricted	9,215,219	9,076,969
Permanently restricted	67,720,499	52,298,999
Total Net Assets	83,412,326	67,745,550
TOTAL LIABILITIES AND NET ASSETS	\$ 96,866,338	\$ 80,395,155

See accompanying notes to financial statements.

Arkansas State University System Foundation, Inc.

STATEMENT OF ACTIVITIES Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT				
Contributions	\$ 388,874	\$ 2,221,839	\$ 11,884,581	\$ 14,495,294
Investment return, net	440,735	977,954	3,537,746	4,956,435
Other income	152,560	223,988	15,173	391,721
Net assets released from restrictions	3,285,531	(3,285,531)	-	-
	<u>4,267,700</u>	<u>138,250</u>	<u>15,437,500</u>	<u>19,843,450</u>
EXPENSES AND LOSSES				
Program Services				
Academic activities	651,921	-	-	651,921
Administrative	257,951	-	-	257,951
Student activities	24,464	-	-	24,464
Transfers to Arkansas State University	2,700,461	-	-	2,700,461
Supporting Services				
Management and general	525,877	-	-	525,877
Change in Split Interest Agreements				
	-	-	16,000	16,000
	<u>4,160,674</u>	<u>-</u>	<u>16,000</u>	<u>4,176,674</u>
INCREASE IN NET ASSETS	107,026	138,250	15,421,500	15,666,776
NET ASSETS AT BEGINNING OF YEAR	<u>6,369,582</u>	<u>9,076,969</u>	<u>52,298,999</u>	<u>67,745,550</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,476,608</u>	<u>\$ 9,215,219</u>	<u>\$ 67,720,499</u>	<u>\$ 83,412,326</u>

See accompanying notes to financial statements.

Arkansas State University System Foundation, Inc.

STATEMENT OF ACTIVITIES Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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)	-	-
	<u>7,870,448</u>	<u>527,018</u>	<u>6,858,553</u>	<u>15,256,019</u>
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
	<u>4,363,364</u>	<u>-</u>	<u>28,761</u>	<u>4,392,125</u>
INCREASE IN NET ASSETS	3,507,084	527,018	6,829,792	10,863,894
NET ASSETS AT BEGINNING OF YEAR	<u>2,862,498</u>	<u>8,549,951</u>	<u>45,469,207</u>	<u>56,881,656</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,369,582</u>	<u>\$ 9,076,969</u>	<u>\$ 52,298,999</u>	<u>\$ 67,745,550</u>

See accompanying notes to financial statements.

Arkansas State University System Foundation, Inc.

STATEMENTS OF CASH FLOWS Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 15,666,776	\$ 10,863,894
Adjustments to Reconcile Change in Net Assets to Net Cash (Used) Provided by Operating Activities		
Depreciation expense	48,258	50,197
Contributions restricted for long-term investments	(11,884,581)	(1,315,945)
Contributions of property and equipment	(173,339)	(692,435)
Gain on disposal of property and equipment	(11,401)	272
Net appreciation in fair value of investments	(2,737,148)	(6,197,551)
Change in value of split-interest agreements	11,020	11,527
Interest and dividends restricted for long-term purposes	(239,647)	(239,647)
Changes in operating assets and liabilities:		
Contributions receivable	(4,038,285)	289,282
Prepaid expenses	(2,820)	33,272
Other assets	(5,756)	5,602
Accounts payable	100,707	(43,156)
Annuity obligations	-	12,761
Funds held for others	715,628	978,374
Net Cash (Used) Provided by Operating Activities	(2,550,588)	3,756,447
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of certificates of deposit	(1,461,462)	(1,459,764)
Proceeds from maturity of certificates of deposit	1,713,050	1,180,479
Purchases of investments	(10,112,850)	(5,751,524)
Proceeds from sale of investments	811,688	305,057
Purchases of property and equipment	(47,491)	-
Proceeds from disposal of property and equipment	15,727	200
Net Cash Used by Investing Activities	(9,081,338)	(5,725,552)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(11,928)	-
Contributions restricted for long-term investments	11,884,581	1,315,945
Interest and dividends restricted for long-term purposes	239,647	239,647
Net Cash Provided for Financing Activities	12,112,300	1,555,592
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND REPURCHASE AGREEMENTS	480,374	(413,513)
CASH, CASH EQUIVALENTS AND REPURCHASE AGREEMENTS, BEGINNING OF YEAR	5,791,110	6,204,623
CASH, CASH EQUIVALENTS AND REPURCHASE AGREEMENTS, END OF YEAR	\$ 6,271,484	\$ 5,791,110

(Continued)

See accompanying notes to financial statements.

Arkansas State University System Foundation, Inc.

STATEMENTS OF CASH FLOWS *(Continued)*

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS AND REPURCHASE AGREEMENTS TO STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 227,902	\$ 71,319
Repurchase agreements	<u>6,043,582</u>	<u>5,719,791</u>
TOTAL CASH, CASH EQUIVALENTS AND REPURCHASE AGREEMENT	<u>\$ 6,271,484</u>	<u>\$ 5,791,110</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS		
Additions to property and equipment included in note payable	<u>\$ -</u>	<u>\$ 37,645</u>

See accompanying notes to financial statements.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 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 statements of cash flows, cash equivalents are defined as liquid securities with original maturities of three months or less.

The Foundation has three 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 statements of cash flows.

At times during the years ended June 30, 2018 and 2017, cash and cash equivalents, certificates of deposit and repurchase agreements 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, 2018 and 2017, the Foundation's balances maintained at financial institutions and investment banking firms totaled approximately \$12,986,000 and \$12,322,000, respectively. Of these balances, approximately \$9,000 and \$705,000 was not insured or collateralized at the years ended June 30, 2018 and 2017, respectively.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 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 statements 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 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 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, 2018 and 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 years ended June 30, 2018 and 2017, eight employees of the University were provided to the Foundation to oversee the operations. For each of the years ended June 30, 2018 and 2017, the Foundation reimbursed the University approximately \$90,000 for salary expense. The University contributed in-kind salary expense of \$317,602 and \$314,940 for the years ended June 30, 2018 and 2017, respectively. These in-kind contributions are included in contributions and in supporting expenses in the statements 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, 2018 and 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 Adopted Accounting Standards

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 became effective for the Foundation on July 1, 2017, and was applied retrospectively. The updated standard did not have a material effect on the financial statements.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Recently Issued Accounting Standards

In August 2016, the FASB issued 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 the Foundation on July 1, 2018, 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.
- 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.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 3: INVESTMENTS

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

	2018	2017
Money market funds	\$ 37,277	\$ 1,478,266
U.S. equity mutual funds	33,009,056	31,957,499
International equities mutual funds	11,111,890	6,740,452
Fixed income investments	28,288,879	20,585,542
Guaranteed investment contract	84,521	82,856
Partnership interests	5,618,110	5,288,354
Negotiable certificates of deposit	1,024,347	1,013,821
Total	\$ 79,174,080	\$ 67,146,790

Investment return consists of the following for the years ended June 30:

	2018	2017
Interest and dividend income	\$ 2,272,711	\$ 1,783,803
Net realized and unrealized gains (losses)	2,714,286	5,087,912
Investment fees	(30,562)	(34,541)
Total investment return	\$ 4,956,435	6,837,174

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;

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 4: FAIR VALUE MEASUREMENTS (Continued)

- 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 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, 2018 and 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.

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. Net asset value is used as a practical expedient as permitted under generally accepted accounting principles.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 4: FAIR VALUE MEASUREMENTS (Continued)

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, 2018.

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:

	2018				Total
	Level 1	Level 2	Level 3	Not Classified	
Mutual funds					
U.S. equity mutual funds	\$ 33,009,056	\$ -	\$ -	\$ -	\$ 33,009,056
Fixed income investments	14,151,455	-	-	-	14,151,455
International equities	11,111,890	-	-	-	11,111,890
Money market	37,277	-	-	-	37,277
Bonds and treasuries	14,137,424	-	-	-	14,137,424
Partnership interest					
Private real estate	-	-	-	2,108,935	2,108,935
Private equity	-	-	-	1,934,759	1,934,759
Mezzanine debt	-	-	-	1,013,876	1,013,876
Private secondary debt and financing	-	-	-	556,613	556,613
Energy	-	-	-	3,927	3,927
Negotiable certificates of deposit	-	1,024,347	-	-	1,024,347
Guaranteed investment contract	-	-	84,521	-	84,521
Total	\$ 72,447,102	\$ 1,024,347	\$ 84,521	\$ 5,618,110	\$ 79,174,080

(Continued)

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 4: FAIR VALUE MEASUREMENTS (Continued)

	2017				Total
	Level 1	Level 2	Level 3	Not Classified	
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>\$ 60,761,759</u>	<u>\$ 1,013,821</u>	<u>\$ 82,856</u>	<u>\$ 5,288,354</u>	<u>\$ 67,146,790</u>

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

	2018		
	Other	Guaranteed Investment Contract	Total
Balance, July 1, 2017	\$ -	\$ 82,856	\$ 82,856
Return of capital	-	-	-
Purchases	-	-	-
Investment income	-	1,665	1,665
Net realized/unrealized gains	-	-	-
Balance, June 30, 2018	<u>\$ -</u>	<u>\$ 84,521</u>	<u>\$ 84,521</u>

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 4: FAIR VALUE MEASUREMENTS (Continued)

	2017		
	Other	Guaranteed	Total
		Investment	
Balance, July 1, 2016	\$ 5,861	\$ 85,690	\$ 91,551
Return of capital	(5,861)	(4,500)	(10,361)
Purchases	-	-	-
Investment income	-	1,666	1,666
Net realized/unrealized gains	-	-	-
	\$ -	\$ 82,856	\$ 82,856
Balance, June 30, 2017	\$ -	\$ 82,856	\$ 82,856

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:

	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Partnership interest				
Private real estate	\$ 2,108,935	\$ -	N/A	N/A
Private equity	\$ 1,934,759	\$ 438,765	N/A	N/A
Mezzanine debt	\$ 1,013,876	\$ 164,980	N/A	N/A
Private secondary debt and financing	\$ 556,613	\$ 1,400,000	N/A	N/A
Energy	\$ 3,927	\$ -	N/A	N/A

	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
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	N/A	N/A
Energy	\$ 5,962	\$ -	N/A	N/A

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 5: CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable at June 30 are as follows:

	2018	2017
Amounts due in		
Less than one year	\$ 559,000	\$ 863,533
One to five years	5,527,641	871,104
	6,086,641	1,734,637
Less unamortized discount	(173,086)	(75,269)
Less allowance for uncollectible receivables	(303,759)	(87,857)
	\$ 5,609,796	\$ 1,571,511

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, 2018 and 2017 were 1.55% to 2.73%. At June 30, 2018 one donor represented 82% of contributions receivable and at June 30, 2017, three donors represented 65% of contributions receivable.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment at June 30 consist of the following:

	2018	2017
Land	\$ 110,092	\$ 110,092
Vehicles	116,137	109,596
Building	1,088,150	1,088,150
Works of art	865,773	692,435
Furnishings and equipment	139,975	139,975
Computer systems	12,755	12,755
	2,332,882	2,153,003
Accumulated depreciation	(550,385)	(538,752)
	\$ 1,782,497	\$ 1,614,251

NOTE 7: ENDOWMENTS

The Foundation's endowments consist 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 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.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 7: ENDOWMENTS (Continued)

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 Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, accumulations to the permanent endowment 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. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the 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 Foundation and the University, and (7) the Foundation's investment policies.

The Foundation 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 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 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.

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS June 30, 2018 and 2017

NOTE 7: ENDOWMENTS (Continued)

Endowment net asset composition by type of fund as of June 30, 2018, is as follows:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ 26,625	\$ 67,720,499	\$ 67,747,124
Board-designated endowments	3,831,774	-	-	3,831,774
Total endowment	\$ 3,831,774	\$ 26,625	\$ 67,720,499	\$ 71,578,898

Endowment net asset composition by type of fund as of June 30, 2017, is as follows:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ -	\$ 52,298,999	\$ 52,298,999
Board-designated endowments	3,972,263	-	-	3,972,263
Total endowment	\$ 3,972,263	\$ -	\$ 52,298,999	\$ 56,271,262

Changes in endowment net assets as of June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets July 1, 2017	\$ 3,972,263	\$ -	\$ 52,298,999	\$ 56,271,262
Contributions	13,192	25,000	11,884,581	11,922,773
Interest and Dividends	139,511	977,954	982,908	2,100,373
Net appreciation in fair value of investments	181,764	533	2,554,838	2,737,135
Other income	-	-	15,173	15,173
Appropriation of endowments for expenditure	(474,956)	(976,862)	-	(1,451,818)
Change in split interest agreements	-	-	(16,000)	(16,000)
Endowment net assets, June 30, 2018	\$ 3,831,774	\$ 26,625	\$ 67,720,499	\$ 71,578,898

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS June 30, 2018 and 2017

NOTE 7: ENDOWMENTS (Continued)

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

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2016	\$ 225,517	\$ -	\$ 45,469,207	\$ 45,694,724
Contributions	3,691,481	-	1,315,945	5,007,426
Interest and Dividends	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, June 30, 2017	<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:

	2018	2017
Facilities	\$ 1,129,008	\$ 1,136,275
Institutional support	5,749,973	5,559,878
Faculty/staff support	70,997	72,260
Research	20,977	19,107
Scholarships and awards	1,135,836	1,242,814
Student services	247,954	98,494
Community outreach	860,474	948,141
Total	<u>\$ 9,215,219</u>	<u>\$ 9,076,969</u>

Arkansas State University System Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 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:

	<u>2018</u>	<u>2017</u>
Facilities	\$ 5,278,619	\$ 5,593,870
Institutional support	12,732,366	8,342,239
Faculty/staff support	10,966,956	10,286,345
Scholarships and awards	35,332,688	25,244,000
Student services	934,449	414,193
Community outreach	<u>2,475,421</u>	<u>2,418,352</u>
Total	<u>\$ 67,720,499</u>	<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 in the statements of activities for activity in these funds.

NOTE 11: 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 years ended June 30, 2018 and 2017, the Foundation received management fees totaling approximately \$716,000 and \$613,000, respectively.

NOTE 12: SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 25, 2018, the date that the financial statements were available to be issued.