

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

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

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INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS

MEMBER
ARKANSAS SOCIETY
OF CERTIFIED PUBLIC
ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Arkansas State University Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2015 and 2014, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Jones & Company, LTD

Jones & Company, Ltd.
Jonesboro, Arkansas

October 2, 2015

Arkansas State University Foundation, Inc.
Statements of Financial Position

ASSETS

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

LIABILITIES & NET ASSETS

Liabilities		
Accounts payable	\$ 92,925	\$ 42,788
Annuities payable	27,956	52,299
Due to ASU campuses	517,256	184,495
Due to Alumni Association	-	2,383
Amounts held on behalf of Arkansas State University related entities	11,923,085	11,334,653
Total Liabilities	\$ 12,561,222	\$ 11,616,618
Net Assets		
Unrestricted	\$ 2,458,885	\$ 2,519,182
Temporarily restricted	8,159,485	7,867,701
Permanently restricted	44,764,661	41,980,436
Total Net Assets	\$ 55,383,031	\$ 52,367,319
Total Liabilities and Net Assets	\$ 67,944,253	\$ 63,983,937

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

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

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

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

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

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

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

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

	June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,672,619	\$ 6,797,630
Adjustments to reconcile change in net assets to net cash		
Depreciation expense	58,249	56,141
Contributions restricted for long-term investment	(1,892,659)	(2,346,505)
Noncash donations included in support	(66,035)	(66,035)
Net realized and unrealized gain on investments	865,251	(6,688,078)
Change in value of split-interest agreements	36,000	-
Transfer of non-cash assets	66,035	66,035
Changes in:		
Unconditional promises to give	(96,523)	10,611
Cash surrender value of life insurance	507	(445)
Prepaid expense	(13,639)	4,440
Other assets	(106,170)	3,065
Accounts payable	50,137	(38,853)
Annuities payable	(60,343)	(59,402)
Funds held for others	918,810	1,629,430
Net cash (used for) provided by operating activities	\$ 3,432,239	\$ (631,966)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	\$ -	\$ (33,591)
Purchase of investments	(2,407,296)	(1,500,000)
Proceeds from sale of investments	238,211	567,099
Purchases of certificates of deposit	-	(2,103,000)
Proceeds from certificates of deposit	-	249,593
Net cash used for investing activities	\$ (2,169,085)	\$ (2,819,899)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	\$ -	\$ (4,053)
Contributions restricted for long-term investments	1,892,659	2,346,505
Interest and dividends restricted for reinvestment	(2,030,667)	(643,896)
Transfer of assets to Red Wolves Foundation, Inc.	(656,907)	-
Net cash provided by financing activities	\$ (794,915)	\$ 1,698,556
NET CHANGE IN CASH	\$ 468,239	\$ (1,753,309)
Cash, beginning of the year	5,612,325	7,365,634
Cash, end of the year	\$ 6,080,564	\$ 5,612,325
<i>Supplemental Disclosures for Cash Flows</i>		
Cash paid for interest	\$ 37	\$ 594

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

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

1) NATURE OF BUSINESS

Organization and Nature of Operations

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

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Advertising

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

Basis of Reporting

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

Basis of Presentation

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

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

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

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

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

3) REPURCHASE AGREEMENT

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

4) UNCONDITIONAL PROMISES TO GIVE

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

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

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

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

5) INVESTMENTS

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

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

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

5) INVESTMENTS (continued)

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

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

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

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

5) INVESTMENTS (continued)

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

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

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

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

6) ENDOWMENTS

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

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

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

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

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

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

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

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

6) ENDOWMENTS (continued)

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

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

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

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

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

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

6) ENDOWMENTS (continued)

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

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

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

7) PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

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

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

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

8) SPLIT INTEREST AGREEMENTS

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

9) TEMPORARILY RESTRICTED NET ASSETS

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

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

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

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

10) PERMANENTLY RESTRICTED NET ASSETS

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

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

11) FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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Notes to the Financial Statements

11) FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

Level 2 – Inputs to the valuation methodology include:

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

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

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

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

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

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

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

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

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

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

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Notes to the Financial Statements

11) FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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

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

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

11) FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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

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

Arkansas State University Foundation, Inc.
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12) INVESTMENTS VALUED AT NET ASSET VALUE

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

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

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

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

14) CONCENTRATIONS

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

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

15) RECLASSIFICATION AND INTERNAL TRANSFERS

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

16) MANAGEMENT AGREEMENTS

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

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

16) MANAGEMENT AGREEMENTS (continued)

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