



Arkansas State University System Foundation, Inc.

Financial Statements
June 30, 2020 and 2019
(With Independent Auditor's Report Thereon)

Arkansas State University System Foundation, Inc.

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INDEPENDENT AUDITOR'S REPORT

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

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, 2020 and 2019, and the related statements of activities, functional expenses 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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, management adopted the requirement of the Financial Accounting Standards Board Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.


Certified Public Accountants

September 23, 2020
Little Rock, Arkansas

Financial Statements

Arkansas State University System Foundation, Inc.

Statements of Financial Position June 30, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 11,876,860	\$ 6,766,748
Certificates of deposit	5,015,763	4,966,205
Prepaid expenses	19,835	57,681
Contributions receivable, net	7,290,530	11,081,231
Investments, at fair value	86,437,782	83,722,597
Property and equipment, net	1,734,996	1,749,005
Other assets	99,442	99,055
	\$112,475,208	\$108,442,522
TOTAL ASSETS		
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 121,324	\$ 107,964
Annuity obligations	16,000	20,000
Due to Arkansas State University campuses	6,348,701	6,351,765
Due to Alumni Association	40	1,763
Amounts held on behalf of Arkansas State University related entities	13,435,546	13,488,700
Note payable	-	13,179
Total Liabilities	19,921,611	19,983,371
Net Assets		
Without donor restrictions		
Undesignated	2,049,701	2,080,258
Board designated	4,742,823	4,764,341
Total without donor restrictions	6,792,524	6,844,599
With donor restrictions		
Restricted as to purposes	10,992,001	9,051,265
Restricted in perpetuity	74,769,072	72,563,287
Total with donor restrictions	85,761,073	81,614,552
Total Net Assets	92,553,597	88,459,151
TOTAL LIABILITIES AND NET ASSETS	\$112,475,208	\$108,442,522

See accompanying notes to financial statements.

Arkansas State University System Foundation, Inc.

Statement of Activities Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Contributions	\$ 397,769	\$ 5,256,676	\$ 5,654,445
Investment return, net	352,193	2,302,866	2,655,059
Other income	180,435	169,700	350,135
Net assets released from restrictions	3,566,721	(3,566,721)	-
Total Revenue and Other Support	4,497,118	4,162,521	8,659,639
EXPENSES			
Program services	4,418,017	-	4,418,017
Management and general supporting services	131,176	-	131,176
Change in split-interest agreements	-	16,000	16,000
Total Expenses	4,549,193	16,000	4,565,193
(DECREASE) INCREASE IN NET ASSETS	(52,075)	4,146,521	4,094,446
NET ASSETS AT BEGINNING OF YEAR			
	6,844,599	81,614,552	88,459,151
NET ASSETS AT END OF YEAR	\$ 6,792,524	\$ 85,761,073	\$ 92,553,597

See accompanying notes to financial statements.

Arkansas State University System Foundation, Inc.

Statement of Activities Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Contributions	\$ 640,881	\$ 11,806,045	\$ 12,446,926
Investment return, net	416,960	3,589,978	4,006,938
Other income	140,234	188,166	328,400
Net assets released from restrictions	10,889,355	(10,889,355)	-
Total Revenue and Other Support	12,087,430	4,694,834	16,782,264
EXPENSES			
Program services	11,600,698	-	11,600,698
Management and general supporting services	118,741	-	118,741
Change in split-interest agreements	-	16,000	16,000
Total Expenses	11,719,439	16,000	11,735,439
INCREASE IN NET ASSETS	367,991	4,678,834	5,046,825
NET ASSETS AT BEGINNING OF YEAR	6,476,608	76,935,718	83,412,326
NET ASSETS AT END OF YEAR	\$ 6,844,599	\$ 81,614,552	\$ 88,459,151

See accompanying notes to financial statements.

Arkansas State University System Foundation, Inc.

Statements of Functional Expenses Years Ended June 30, 2020 and 2019

	<u>2020</u>			<u>2019</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Academic activities	\$ 823,500	\$ -	\$ 823,500	\$ 636,209	\$ -	\$ 636,209
Administrative support	350,490	-	350,490	258,258	-	258,258
Student activities	21,139	-	21,139	27,553	-	27,553
Transfers - ASU	463,798	-	463,798	547,836	-	547,836
Transfers - scholarships	1,160,193	-	1,160,193	1,046,760	-	1,046,760
Transfers - supplies and services	754,194	-	754,194	1,030,993	-	1,030,993
Transfers - payroll	206,310	-	206,310	452,206	-	452,206
Transfers - fixed assets	30,000	-	30,000	6,897,928	-	6,897,928
Transfers - other	83,693	-	83,693	227,992	-	227,992
Salaries and benefits	337,924	84,481	422,405	330,439	82,610	413,049
Depreciation	42,414	10,604	53,018	43,193	10,798	53,991
Other	144,362	36,091	180,453	101,331	25,333	126,664
TOTAL EXPENSES	<u>\$ 4,418,017</u>	<u>\$ 131,176</u>	<u>\$ 4,549,193</u>	<u>\$ 11,600,698</u>	<u>\$ 118,741</u>	<u>\$ 11,719,439</u>

See accompanying notes to financial statements.

Arkansas State University System Foundation, Inc.

Statements of Cash Flows Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Total Net Assets	\$ 4,094,446	\$ 5,046,825
Adjustments to Reconcile Increase in Total Net Assets to Net Cash Provided by Operating Activities		
Depreciation expense	53,018	53,991
Contributions restricted for long-term investments	1,085,473	2,265,176
Contributions of property and equipment	(15,550)	(34,500)
Gain/loss on sale of fixed assets	1,405	-
Net appreciation in fair value of investments	(30,634)	(990,541)
Change in value of split-interest agreements	19,190	15,340
Interest and dividends restricted for long-term purposes	1,673,188	3,084,129
Changes in operating assets and liabilities:		
Contributions receivable, net	3,790,701	(5,471,435)
Prepaid expenses	37,846	(28,659)
Other assets	(387)	(90,483)
Accounts payable	13,360	(47,102)
Annuity obligations	(4,000)	4,000
Due to Arkansas State University campuses	(3,064)	6,351,765
Due to Alumni Association	(1,723)	840
Amounts held on behalf of Arkansas State University realted entities	(53,154)	232,394
Net Cash Provided by Operating Activities	10,660,115	10,391,740
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of certificates of deposit	(1,280,259)	(4,701,474)
Proceeds from maturity of certificates of deposit	1,230,701	3,726,156
Purchases of investments	(3,289,682)	(4,725,728)
Proceeds from sale of investments	585,941	1,152,412
Purchases of property and equipment	(24,864)	-
Proceeds from disposal of property and equipment	-	14,001
Net Cash Used by Investing Activities	(2,778,163)	(4,534,633)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(13,179)	(12,538)
Contributions restricted for long-term investments	(1,085,473)	(2,265,176)
Interest and dividends restricted for long-term purposes	(1,673,188)	(3,084,129)
Net Cash Used by Financing Activities	(2,771,840)	(5,361,843)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,110,112	495,264
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,766,748	6,271,484
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 11,876,860	\$ 6,766,748

Arkansas State University System Foundation, Inc.

Notes to Financial Statements June 30, 2020 and 2019

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

Basis of Accounting and Financial Statement Presentation

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

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

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

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

Cash and Cash Equivalents and Certificates of Deposit

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

The Foundation has two agreements with one financial institution to sweep funds from its checking accounts into repurchase agreements. The funds are swept daily and are secured by U.S. treasury obligations, U.S. government securities and municipal securities. These funds are considered cash equivalents.

At times during the years ended June 30, 2020 and 2019, cash and cash equivalents and certificates of deposit exceeded amounts insured by the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC) and were not collateralized. In the event of an institutional failure, account balances exceeding FDIC or SIPC insurance limits may not be recoverable. For the years ended June 30, 2020 and 2019, the Foundation's balances maintained at financial institutions and investment banking firms totaled approximately \$17,039,000 and \$12,025,000, respectively. Of these balances, approximately \$1,019,000 and \$134,000 were not insured or collateralized at June 30, 2020 and 2019, respectively.

Arkansas State University System Foundation, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Foundation's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. Changes in fair value are recorded in the period in which they occur. See Note 3 for further discussion of fair value measurements. Realized gains and losses on sales of securities are recognized on the transaction trade dates. Dividend income is recorded on the ex-dividend date, and interest income is accrued as it is earned. Investment return presented on the statements of activities includes dividends, interest, other investment income, as well as realized and unrealized gains and losses, and is net of investment expenses.

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.

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. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the 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, 2020 and 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020 and 2019, eight employees of the University were provided to the Foundation to oversee the operations. For the years ended June 30, 2020 and 2019, the Foundation reimbursed the University approximately \$110,000 and \$90,000, respectively, for salary expense. The University contributed in-kind salary expense of approximately \$312,000 and \$323,000 for the years ended June 30, 2020 and 2019, respectively. These in-kind contributions are included in contributions and expenses in the statements of activities.

Functional Expenses

Expenses associated with certain activities and functions necessary for the support of the program provided by the Foundation are considered supporting services expenses. Supporting services include various costs associated with administration, maintenance and other general functions of the Foundation.

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

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, 2020 and 2019, 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.

Estimates

The preparation of these 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.

Arkansas State University System Foundation, Inc.

Notes to Financial Statements June 30, 2020 and 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Standards

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or exchange (reciprocal) transactions and 2) determining whether a contribution is conditional. Distinguishing between contributions and exchange transactions determines which accounting guidance is applied, and the accounting may be different depending on the guidance applied. In addition, for contributions, determining whether a contribution is conditional or unconditional affects the timing of recognition. Management of the Foundation adopted ASU No. 2018-08 during the year ended June 30, 2020.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new guidance requires lessees to record a right-of-use asset and a corresponding liability equal to the present value of future rental payments on their balance sheets for all leases with a term greater than one year and is effective for the Foundation on July 1, 2022. Management of the Foundation has not yet determined the significance of the impact of implementation of this standard or any related amendments will have on the Foundation's financial statements.

NOTE 3: FAIR VALUE MEASUREMENTS

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

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. |
|---------|---|

Arkansas State University System Foundation, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 3: FAIR VALUE MEASUREMENTS (Continued)

Level 2	<p>Inputs to the valuation methodology include the following:</p> <ul style="list-style-type: none">• 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. <p>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.</p>
Level 3	<p>Inputs to the valuation methodology are unobservable and significant to the fair value measurement.</p>
Not Classified	<p>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.</p>

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, 2020 and 2019.

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

Arkansas State University System Foundation, Inc.

Notes to Financial Statements June 30, 2020 and 2019

NOTE 3: FAIR VALUE MEASUREMENTS (Continued)

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

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

The fair values of partnership interests are estimated at the net asset value of the units held by the 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.

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.

The following tables set forth, by level, within the fair value hierarchy, amounts recorded in the Foundation's financial statements at fair value at June 30, 2020 and 2019:

	2020				Total
	Level 1	Level 2	Level 3	Not Classified	
Mutual funds					
Real estate	\$ 2,559,464	\$ -	\$ -	\$ -	\$ 2,559,464
International equities	1,810,010	-	-	-	1,810,010
Money market	1,752,757	-	-	-	1,752,757
Fixed income	5,794,492	-	-	-	5,794,492
Alternative assets	6,856,209	-	-	-	6,856,209
Exchange traded funds					
U.S. equities	10,969,936	-	-	-	10,969,936
International equities	6,950,819	-	-	-	6,950,819
Real assets	6,010,614	-	-	-	6,010,614
Fixed income	18,491,076	-	-	-	18,491,076

(Continued)

Arkansas State University System Foundation, Inc.

Notes to Financial Statements June 30, 2020 and 2019

NOTE 3: FAIR VALUE MEASUREMENTS (Continued)

	2020				Total
	Level 1	Level 2	Level 3	Not Classified	
Equity securities					
U.S. equities	\$ 12,542,196	\$ -	\$ -	\$ -	\$ 12,542,196
International equities	6,222,365	-	-	-	6,222,365
Partnership interest					
Private real estate	-	-	-	1,836,051	1,836,051
Private equity	-	-	-	1,807,764	1,807,764
Mezzanine debt	-	-	-	1,883,720	1,883,720
Private secondary debt and financing	-	-	-	866,204	866,204
Guaranteed investment contract	-	-	84,105	-	84,105
Total	\$ 79,959,938	\$ -	\$ 84,105	\$ 6,393,739	\$ 86,437,782

	2019				Total
	Level 1	Level 2	Level 3	Not Classified	
Mutual funds					
U.S. equity mutual funds	\$ 37,377,477	\$ -	\$ -	\$ -	\$ 37,377,477
Fixed income investments	16,253,307	-	-	-	16,253,307
International equities	8,407,737	-	-	-	8,407,737
Money market	469	-	-	-	469
Bonds and treasuries	16,229,165	-	-	-	16,229,165
Partnership interest					
Private real estate	-	-	-	2,052,240	2,052,240
Private equity	-	-	-	1,661,258	1,661,258
Mezzanine debt	-	-	-	957,869	957,869
Private secondary debt and financing	-	-	-	700,631	700,631
Guaranteed investment contract	-	-	82,444	-	82,444
Total	\$ 78,268,155	\$ -	\$ 82,444	\$ 5,371,998	\$ 83,722,597

Arkansas State University System Foundation, Inc.

Notes to Financial Statements June 30, 2020 and 2019

NOTE 4: CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable at June 30 are as follows:

	2020	2019
Amounts due in		
Less than one year	\$ 1,996,459	\$ 5,297,009
One to five years	5,906,377	6,616,447
Post five years	4,312	-
	7,907,148	11,913,456
Less unamortized discount	(215,828)	(237,178)
Less allowance for uncollectible receivables	(400,790)	(595,047)
Contributions receivable, net	<u>\$ 7,290,530</u>	<u>\$ 11,081,231</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, 2020 and 2019 were 1.71% to 1.76%. At June 30, 2020, two donors represented 84% of contributions receivable. At June 30, 2019, two donors represented 87% of contributions receivable and one donor represented 55% of contribution revenue.

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment at June 30 consists of the following:

	2020	2019
Land	\$ 110,092	\$ 110,092
Vehicles	95,145	102,137
Building	1,088,150	1,088,150
Works of art	915,823	900,273
Furnishings and equipment	139,975	139,975
	2,349,185	2,340,627
Accumulated depreciation	(614,189)	(591,622)
Total	<u>\$ 1,734,996</u>	<u>\$ 1,749,005</u>

NOTE 6: ENDOWMENTS

The Foundation's endowments consist of approximately 400 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, 2020 and 2019

NOTE 6: 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 net assets with donor restrictions the original value of gifts donated to the endowments, the original value of subsequent gifts to the endowments, accumulations to the endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund and the remaining amount of investment return less appropriated expenditures at the end of each year. However, by Board policy, any appreciation is considered an asset of the individual endowment fund and is not appropriated for general use. 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, 2020 and 2019

NOTE 6: ENDOWMENTS (Continued)

Changes in endowment net assets as of June 30, 2020, are as follows:

	Board Designated Endowment Funds	Restricted Endowment Funds	Total
Endowment net assets July 1, 2019	\$ 4,764,341	\$ 73,465,318	\$ 78,229,659
Contributions	11,033	1,767,490	1,778,523
Investment return, net	107,053	1,691,429	1,798,482
Other income	-	27,682	27,682
Appropriation of endowments for expenditure	(139,604)	(1,171,162)	(1,310,766)
Change in split-interest agreements	-	(16,000)	(16,000)
Endowment net assets, June 30, 2020	<u>\$ 4,742,823</u>	<u>\$ 75,764,757</u>	<u>\$ 80,507,580</u>

Changes in endowment net assets as of June 30, 2019, are as follows:

	Board Designated Endowment Funds	Restricted Endowment Funds	Total
Endowment net assets, July 1, 2018	\$ 3,831,774	\$ 67,747,124	\$ 71,578,898
Contributions	543,697	3,770,872	4,314,569
Investment return, net	190,767	3,112,998	3,303,765
Other income	-	10	10
Appropriation of endowments for expenditure	(65,936)	(1,149,686)	(1,215,622)
Transfer to create board- designated endowment fund	264,039	-	264,039
Change in split-interest agreements	-	(16,000)	(16,000)
Endowment net assets, June 30, 2019	<u>\$ 4,764,341</u>	<u>73,465,318</u>	<u>\$ 78,229,659</u>

Arkansas State University System Foundation, Inc.

Notes to Financial Statements June 30, 2020 and 2019

NOTE 7: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at June 30, 2020:

	Restricted as to Purposes	Restricted in Perpetuity
Facilities	\$ 2,448,271	\$ 4,116,954
Institutional support	5,322,539	12,429,504
Faculty/staff support	84,980	16,979,413
Research	208,955	2,395,243
Scholarships and awards	1,230,228	36,246,312
Student services	562,318	651,623
Community outreach	1,134,710	1,950,023
	\$ 10,992,001	\$ 74,769,072

Net assets with donor restrictions are available for the following purposes at June 30, 2019:

	Restricted as to Purposes	Restricted in Perpetuity
Facilities	\$ 2,226,481	\$ 5,383,527
Institutional support	4,051,472	12,302,699
Faculty/staff support	84,434	17,470,036
Research	28,913	-
Scholarships and awards	1,257,396	34,815,890
Student services	328,287	642,765
Community outreach	1,074,282	1,948,370
	\$ 9,051,265	\$ 72,563,287

NOTE 8: DUE TO ARKANSAS STATE UNIVERSITY CAMPUSES

During the year ended June 30, 2019, the Foundation received a contribution on behalf of the University to fund the construction and equipping of a building on the campus of the University. The Foundation recorded a liability to the University in Due to Arkansas State University campuses on the statements of financial position for the remaining amounts unspent on the construction and equipping of the building.

Arkansas State University System Foundation, Inc.

Notes to Financial Statements June 30, 2020 and 2019

NOTE 9: 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 10: 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, 2020 and 2019, the Foundation received management fees totaling approximately \$838,000 and \$803,000, respectively.

NOTE 11: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

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

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

	2020	2019
Cash and cash equivalents	\$ 11,876,860	\$ 6,766,748
Certificates of deposit	5,015,763	4,966,205
Contributions receivable, net	7,290,530	11,081,231
Investments, at fair value	86,437,782	83,722,597
	110,620,935	106,536,781
Less cash and cash equivalents held on behalf of Arkansas State University related entities	(458,642)	(568,933)
Less certificates of deposit with maturity greater than one year	-	(2,990,602)
Less contributions due in more than one year	(5,906,377)	(6,616,447)
Less endowment assets	(80,507,580)	(78,229,659)
Add back appropriations for years ended June 30, 2021 and 2020	2,461,118	2,251,859
	(84,411,481)	(86,153,782)
Financial assets available to meet cash needs for general expenditures within one year	\$ 26,209,454	\$ 20,382,999

Arkansas State University System Foundation, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 11: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

Although not expected to be needed, the Foundation also has available for spending without limitation board-designated net assets of \$4,742,823 and \$4,764,341, respectively, at June 30, 2020 and 2019. These resources are invested for long-term appreciation and current income, but may be spent at the discretion of the Board. See Notes 3 and 6 for further information about the Foundation's investments and board-designated net assets, respectively.

NOTE 12: RISKS AND UNCERTAINTIES

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of the COVID-19 pandemic on the Foundation and financial results will depend on future developments, including the duration of the outbreak and the related impact on consumer confidence and spending, all of which are highly uncertain.

NOTE 13: SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 23, 2020, the date that the financial statements were available to be issued.