ARKANSAS STATE UNIVERSITY FOUNDATION, INC.

Financial Statements as of and for the
Years ended June 30, 2014 and 2013

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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. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014 and 2013, 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.

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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, 2014 and 2013, 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, 2014

Arkansas State University Foundation, Inc.
Statements of Financial Position

ASSETS

	June 30, 2014	June 30, 2013
Cash	$ 246,200	$ 292,983
Repurchase agreement	5,366,125	7,072,651
Certificates of deposit	3,706,896	1,843,050
Short-term investment	87,171	87,723
Prepaid expenses	5,829	10,269
Unconditional promises to give, net	1,431,460	1,442,071
Long-term investments	52,088,736	43,833,748
Cash surrender value of life insurance	7,155	6,710
Property and equipment, net	1,043,266	1,065,816
Other assets	1,100	4,165
Total Assets	$ 63,983,938	$ 55,659,186

LIABILITIES & NET ASSETS

	2014	2013
Liabilities		
Accounts payable	$ 42,789	$ 81,643
Note payable	-	4,053
Annuities payable	52,298	111,700
Due to ASU campuses	184,495	-
Due to Alumni Association	2,383	-
Amounts held on behalf of Arkansas State University related entities	11,334,653	9,892,101
Total Liabilities	$ 11,616,618	$ 10,089,497
Net Assets		
Unrestricted	$ 2,519,184	$ 2,461,558
Temporarily restricted	7,867,712	8,556,041
Permanently restricted	41,980,424	34,552,090
Total Net Assets	$ 52,367,320	$ 45,569,689
Total Liabilities and Net Assets	$ 63,983,938	$ 55,659,186

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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)	-	-
	$ 5,040,346	$ (897,948)	$ 7,580,332	$ 11,722,730
Expenses and Losses				
Program services				
Academic activities	$ 600,451	$ -	$ -	$ 600,451
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	3,178,427	-	-	3,178,427
	$ 4,925,099	$ -	$ -	$ 4,925,099
Increase (decrease) in net assets	$ 115,247	$ (897,948)	$ 7,580,332	$ 6,797,631
Net assets at beginning of the year	$ 2,461,558	$ 8,556,041	$ 34,552,090	$ 45,569,689
Reclassification and internal transfers	(57,621)	209,619	(151,998)	-
	$ 2,403,937	$ 8,765,660	$ 34,400,092	$ 45,569,689
Net assets at the end of the year	$ 2,519,184	$ 7,867,712	$ 41,980,424	$ 52,367,320

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, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support				
Support and reclassifications				
Contributions	$ 282,493	$ 4,512,916	$ 1,138,421	$ 5,933,830
Contributed services	355,876	-	-	355,876
Investment return, net	54,690	1,352,629	1,549,953	2,957,272
Other income	423,818	318,293	1,716	743,827
Net assets released from restrictions	3,595,132	(3,595,132)	-	-
	$ 4,712,009	$ 2,588,706	$ 2,690,090	$ 9,990,805
Expenses and Losses				
Program services				
Academic activities	$ 642,184	$ -	$ -	$ 642,184
Administrative	129,658	-	-	129,658
Student activities	50,934	-	-	50,934
Supporting services				
Management and general	518,248	-	-	518,248
Fundraising	401,273	-	-	401,273
Transfers to Arkansas State University	2,888,267	-	-	- 2,888,267
Transfers to Arkansas State Alumni Association	3,650	-	-	3,650
	$ 4,634,214	$ -	$ -	$ 4,634,214
Increase in net assets	$ 77,795	$ 2,588,706	$ 2,690,090	$ 5,356,591
Net assets at beginning of the year	$ 2,436,225	$ 5,873,738	$ 31,903,135	$ 40,213,098
Reclassification and internal transfers	(52,462)	93,597	(41,135)	-
	2,383,763	5,967,335	31,862,000	40,213,098
Net assets at the end of the year	$ 2,461,558	$ 8,556,041	$ 34,552,090	$ 45,569,689

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, 2014		June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	$	6,797,631	$	5,356,591
Adjustments to reconcile change in net assets to net cash				
Depreciation and amortization		56,141		63,476
Contributions restricted for long-term investment		(2,346,505)		(1,138,421)
Increase in cash surrender value of life insurance		(445)		(310)
Noncash donations included in support		(66,035)		(642,000)
Net realized/unrealized gain on investments		(6,688,078)		(2,063,773)
Transfer of non-cash assets		66,035		642,000
Changes in:				
Unconditional promises to give		10,611		18,593
Prepaid expense		4,440		(4,148)
Other assets		3,065		(3,065)
Accounts payable		(38,854)		43,643
Funds held for others		1,629,430		(91,856)
Net cash (used for) provided by operating activities	$	(572,564)	$	2,180,730
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	$	(33,591)	$	(22,778)
Purchase of investments		(1,500,000)		(598,935)
Proceeds from sale of investments		567,099		15,875
Principal payments received on mortgage receivable		-		50,000
Purchases of certificates of deposit		(2,103,000)		(588,000)
Proceeds from certificates of deposit		249,593		504,685
Net cash used for investing activities	$	(2,819,899)	$	(639,153)
CASH FLOWS FROM FINANCING ACTIVITIES				
Principal payments on notes payable	$	(4,053)	$	(17,370)
Proceeds from contributions restricted for long-term investments		2,346,505		1,138,421
Interest and dividends restricted for reinvestment		(643,896)		(687,087)
Payments of annuity obligations over the		(59,402)		(58,656)
Net cash provided by financing activities	$	1,639,154	$	375,308
NET CHANGE IN CASH	$	(1,753,309)	$	1,916,885
Cash, beginning of the year		7,365,634		5,448,749
Cash, end of the year	$	5,612,325	$	7,365,634
Supplemental Disclosures for Cash Flows				
Cash paid for interest	$	37	$	594

The accompanying notes are an integral part of these 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.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Advertising

Advertising costs are charged to operations when incurred. Advertising expense for the years ended June 30, 2014 and 2013 was $23,992 and $51,089, 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.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases these net asset classes.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)
Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Cash and Cash Equivalents
For purposes of the statements of cash flows, the Foundation considers cash, repurchase agreements and certificates of deposit with an original maturity of three months or less to be cash equivalents. As of June 30, 2014, cash equivalents totaling $4,783,556 has been restricted by donor imposed stipulations.

Contributions
Contributions, including unconditional promises to give, are recorded as received or promised and classified as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unconditional promises to give due within one year are recorded at net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Date of Management Review
The Foundation has evaluated events and transactions for potential recognition or disclosure in the financial statements through October 2, 2014 the date the report was available for release. No subsequent events have been recognized or disclosed.

Donated Noncash Assets and Donated Services
Donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills are recorded at their fair values in the period received. These donated services are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The donated services were used for the management and administration of the Foundation.

Income Taxes
The Foundation is exempt from federal income tax under the provisions of section 501(a) of Internal Revenue Code as an organization described in section 501(c)(3). Therefore, no provision for federal or state income taxes has been made.

The Foundation files income tax returns in the U.S. federal jurisdiction. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2011.

The Foundation has reviewed and evaluated tax positions in accordance with the provisions of FASB ASC 740-10-55, *Accounting for Uncertainty in Income Taxes*, which provides a financial statement recognition threshold and measurement attribute for a tax position taken or to be taken in a tax return. The Foundation does not feel any tax positions meet the requirements for reporting under this standard.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Long-lived Assets

Long-lived assets, such as land, buildings, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Foundation first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounting cash flow models and third-party independent appraisals, as considered necessary.

Investments

Investments consist primarily of marketable securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statements of activities. Restricted investment income and investment gains whose restrictions are met in the same reporting period are shown as unrestricted support.

Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The Foundation capitalizes all expenditures in excess of $2,500 for property and equipment at cost. When property and equipment are retired, the related cost and accumulated depreciation is removed from the balance sheet and any resultant gain or loss is recorded. Repairs and maintenance costs are expensed as incurred. Property and equipment are depreciated using the straight-line method over estimated useful lives as follows:

Buildings	30 years
Furnishings and equipment	3 – 7 years

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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. The balances as of June 30, 2014 and 2013 are $5,366,125 and $7,072,651, respectively. These funds are considered cash equivalents for the cash flow statement for 2014.

4) UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at June 30, 2014 and 2013 are as follows:

Receivable in:	2014	2013
Less than one year	$ 18,000	$ 207,877
One to five years	1,069,289	849,153
After five years	600,000	708,500
Total unconditional promises to give	$ 1,687,289	$ 1,765,530
Less unamortized discount	184,331	232,113
Less allowance for uncollectible promises	71,498	91,346
Net unconditional promises to give	$ 1,431,460	$ 1,442,071

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, 2014 were 0.69% to 1.72%.

As of June 30, 2014, unconditional promises to give totaling $1,096,330 have been restricted by donor stipulations. Also, three donors represented more than 10% of total promises to give at June 30, 2014. Donor A represented 36%, donor B represented 22% and donor C represented 18%.

5) INVESTMENTS

The market values of the Foundation's portfolio of investments as of June 30, 2014 and 2013 are as follows:

	2014	2013
Money Market Funds	$ -	$ 56,312
U.S. Equity Mutual Funds	23,416,854	13,625,847
U.S. Equities	2,307,722	5,757,915
International Equities	5,141,335	3,781,087
Fixed Income Investments	17,974,487	20,214,521
Guaranteed Investment Contract	87,171	87,723
Partnership Interest	597,440	298,066
Real Estate Fund	2,597,870	-
Other	53,028	100,000
	$ 52,175,907	$ 43,921,471

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 that those changes could materially affect the amounts reported in the statements of activities. Investment fees included in investment income totaled $422,077 and $339,631 for the years ended June 30, 2014 and 2013, respectively.

5) INVESTMENTS (continued)

The following schedule summarizes the return on investments and interest bearing cash deposits for the year ended June 30, 2014 and 2013:

	Net Unrealized/Realized Gains (Losses)	Investment Income (Expense)	Interest Income	Total
U.S. Equity Mutual Funds	$ 2,631,627	$ 158,380	$ -	$ 2,790,007
U.S. Equities	354,595	(13,175)	-	341,420
International Equity Funds	656,196	40,192	-	696,388
Fixed Income Investments	75,088	281,621	-	356,709
Guaranteed Investment Contract	-	-	1,948	1,948
Partnership Interest	407	(86,505)	-	(86,098)
Master Ltd. Partnership Fund	1,030,027	125,886	-	1,155,913
Real Estate Fund	582,509	-	-	582,509
Other	-	-	1,683	1,683
Assets Held in Trust	31,461	12,618	51	44,130
Certificates of Deposit	-	-	19,708	19,708
Cash	-	-	31,309	31,309
	$ 5,361,910	$ 519,017	$ 54,699	$ 5,935,626

	Net Unrealized/Realized Gains (Losses)	Investment Income (Expense)	Interest Income	Total
Money Market Funds	$ -	$ 3,623	$ -	$ 3,623
U.S. Equity Mutual Funds	1,930,793	88,629	-	2,019,422
U.S. Equities	349,582	(8,459)	-	341,123
International Equity Funds	254,006	75,389	-	329,395
Fixed Income Investments	(493,929)	631,447	-	137,518
Guaranteed Investment Contract	-	-	2,082	2,082
Partnership Interest	5,144	3,639	-	8,783
Master Ltd. Partnership Fund	14,481	1,916	-	16,397
Other	-	-	10,262	10,262
Assets Held in Trust	3,696	26,002	-	29,698
Certificates of Deposit	-	-	14,534	14,534
Cash	-	-	44,435	44,435
	$ 2,063,773	$ 822,186	$ 71,313	$ 2,957,272

5) INVESTMENTS (continued)

The following schedules summarize the investment return and its classification in the statements of activities for the years ended June 30, 2014 and 2013:

2014

	Unresticted	Temporarily Resticted	Permanently Restricted	Total
Interest income	$ 39,003	$ 8,101	$ -	$ 47,104
Investment income	2,687	583,347	-	586,034
Net realized and unrealized gains	22,811	59,461	5,220,216	5,302,488
Total investment return	$ 64,501	$ 650,909	$ 5,220,216	$ 5,935,626

2013

	Unresticted	Temporarily Resticted	Permanently Restricted	Total
Interest income	$ 47,512	$ 23,801	$ -	$ 71,313
Investment income	2,282	819,904	-	822,186
Net realized and unrealized gains	4,896	508,924	1,549,953	2,063,773
Total investment return	$ 54,690	$ 1,352,629	$ 1,549,953	$ 2,957,272

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.

6) ENDOWMENTS (continued)

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.

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.

6) ENDOWMENTS (continued)

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, 2014 and 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowments
Donor-restricted endowment funds June 30, 2014	$ -	$ -	$ 41,980,424	$ 41,980,424
Donor-restricted endowment funds June 30, 2013	$ -	$ -	$ 34,552,090	$ 34,552,090

Changes in endowment net assets as of June 30, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowments
Net endowment assets, beginning of year	$ -	$ -	$ 34,552,090	$ 34,552,090
Contributions	-	-	2,346,505	2,346,505
Investment income	-	577,888	1,835,651	2,413,539
Net appreciation	-	-	3,391,942	3,391,942
Other income	-	-	6,234	6,234
Amounts appropriated for expenditure	-	(577,888)	-	(577,888)
Reclassification	-	-	(151,998)	(151,998)
Net endowment assets, end of year	$ -	$ -	$ 41,980,424	$ 41,980,424

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 $0 and $67,882 at June 30, 2014 and 2013, respectively.

7) PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2014	2013
Land	$ 110,093	$ 110,093
Vehicles	105,986	93,469
Building	1,088,150	1,088,150
Furnishings and equipment	142,615	153,879
Computer systems	12,755	12,755
	$ 1,459,599	$ 1,458,346
Accumulated depreciation	416,333	392,530
	$ 1,043,266	$ 1,065,816

Depreciation expense was $56,141 and $63,476 for the fiscal years ended June 30, 2014 and 2013, respectively.

8) SPLIT INTEREST AGREEMENTS

Annuities payable are comprised of four split interest agreements at fair market value. Present value amounts were calculated 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 $610,733 and $632,435 at June 30, 2014 and 2013, respectively.

9) NOTE PAYABLE

Note payable consists of the following:

	2014	2013
Note payable to Finance Company, due in monthly installments of $1,051 including interest at 5.0%, collateralized by an automobile	-	$ 4,053
	$ -	$ 4,053

10) TEMPORARILY RESTRICTED NET ASSETS

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

	2014	2013
Periods after June 30,	$ 7,867,712	$ 8,556,041

10) TEMPORARILY RESTRICTED NET ASSETS (continued)

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

	2014	2013
Purpose for restriction accomplished:		
Academia and student activities	$ 843,557	$ 1,078,228
ASU colleges and departments	3,149,228	2,516,904
Total restrictions released	$ 3,992,785	$ 3,595,132

11) PERMANENTLY RESTRICTED NET ASSETS

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

	2014	2013
Endwoments	$ 41,980,424	$ 34,552,090

12) 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 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.

12) FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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, 2014 and 2013, 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: 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.

Debt and equity securities: The fair values are based on quoted market prices on major exchanges.

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.

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.

12) 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:

	Level 1	Level 2	Level 3	Total
Investments:				
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
Domestic large cap equities	-	-	-	-
Mid cap blend	-	-	-	-
International equities	5,141,335	-	-	5,141,335
Guaranteed investment contract	-	-	87,171	87,171
Partnership interest	-	-	597,440	597,440
Repurchase agreement	-	5,366,125	-	5,366,125
Certificates of deposit	-	3,706,896	-	3,706,896
Real Estate	-	-	2,597,870	2,597,870
Other	53,029	-	7,155	60,184
Total	$ 48,893,427	$ 9,073,021	$ 3,289,636	$ 61,256,084

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, 2013:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	$ 56,312	$ -	$ -	$ 56,312
U.S. equity mutual funds	13,625,847	-	-	13,625,847
Fixed income investments	19,974,521	-	240,000	20,214,521
Domestic small cap equities	2,253,452	-	-	2,253,452
Domestic large cap equities	2,425,355	-	-	2,425,355
Mid cap blend	1,079,108	-	-	1,079,108
International equities	3,781,087	-	-	3,781,087
Guaranteed investment contract	-	-	87,723	87,723
Partnership interest	-	-	298,066	298,066
Repurchase agreement	-	7,072,651	-	7,072,651
Certificates of deposit	-	1,843,050	-	1,843,050
Other	-	-	106,710	106,710
Total	$ 43,195,682	$ 8,915,701	$ 732,499	$ 52,843,882

12) FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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:

	Fixed Income Investments	Real Estate/ Other	Guaranteed Investment Contracts	Partnership Interest	Total
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	-	2,597,870	-	526,263	3,124,133
Investment income (expense)	-	445	1,948	(108,484)	(106,091)
Net realized/unrealized gains (losses)	-	-	(2,500)	13,740	11,240
Balance, June 30, 2014	$ -	$ 2,605,025	$ 87,171	$ 597,440	$ 3,289,636
Unrealized gains	$ -	$ -	$ -	$ 13,740	$ 13,740

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, 2013:

	Fixed Income Investments	Other	Guaranteed Investment Contracts	Partnership Interest	Total
Balance, July 1, 2012	$ 290,000	$ -	$ 88,141	$ 40,082	$ 418,223
Return of capital	(50,000)	-	-	(15,875)	(65,875)
Purchases	-	106,710	-	262,700	369,410
Investment income	-	-	976	4,623	5,599
Net realized/unrealized gains (losses)	-	-	(1,394)	6,536	5,142
Balance, June 30, 2013	$ 240,000	$ 106,710	$ 87,723	$ 298,066	$ 732,499
Unrealized gains	$ -	$ -	$ -	$ 6,845	$ 6,845

13) CONTINGENCIES

The Foundation has committed to make capital contributions to two limited partnership investments.

The Foundation has made contributions of $115,861 toward the first commitment of $127,600. The limited partnership is administered by a companion organization of The Commonfund, and funds may be transferred, if needed, to meet the requirements of the capital call.

The Foundation has made contributions of $662,672 toward the second commitment of $2,000,000. The limited partnership is administered by a capital management company and funds may be transferred, if needed, to meet the requirements of the capital call.

14) 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.

15) CONCENTRATIONS

Substantially all of the Foundation's financial instruments are held with Wells Fargo which is 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 $5,368,408 as of June 30, 2014. However, $5,366,125 is in two repurchase agreements which are collateralized by U.S. government and municipal securities.

16) RECLASSIFICATION AND INTERNAL TRANSFERS

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

17) RELATED PARTIES

The Foundation receives a management fee from the Agencies (Note 16) as compensation for managing the endowment funds. For the years ended June 30, 2014 and 2013, the Foundation received management fees totaling $481,524 and $422,214, respectively.

During the year ended June 30, 2013, the Foundation made a capital contribution to the Arkansas State University Real Estate Foundation, Inc. (Real Estate Foundation) in the amount of $100,000. The Foundation is the sole member of the Real Estate Foundation. This contribution was the only activity of the Real Estate Foundation during the year. In 2014, the amount was transferred to the Real Estate Foundation.