



**Financial Statements
June 30, 2022 and 2021
(With Independent Auditor's Report Thereon)**

Henderson State University Foundation

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Henderson State University Foundation
Arkadelphia, Arkansas

Opinion

We have audited the accompanying financial statements of **Henderson State University Foundation (the Foundation)**, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
September 13, 2022

Financial Statements

Henderson State University Foundation

Statements of Financial Position June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 1,381,175	\$ 1,278,467
Investments	22,767,738	24,974,260
Accrued interest receivable	329	128
Contributions receivable, net	337,360	-
Works of art	480,778	480,778
	<u>480,778</u>	<u>480,778</u>
TOTAL ASSETS	<u>\$ 24,967,380</u>	<u>\$ 26,733,633</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ -	\$ 56,015
Note payable	297,337	-
Total Liabilities	<u>297,337</u>	<u>56,015</u>
Net Assets		
Without donor restrictions	335,159	273,376
With donor restrictions	24,334,884	26,404,242
Total Net Assets	<u>24,670,043</u>	<u>26,677,618</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,967,380</u>	<u>\$ 26,733,633</u>

See accompanying notes to financial statements.

Henderson State University Foundation

Statements of Activities Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Support and Revenue Without Donor Restrictions		
Contributions of cash and other financial assets	\$ -	\$ 1,210
Investment return, net	523	2,760
Net assets released from restrictions	2,232,653	2,575,247
Total Support and Revenue Without Donor Restrictions	<u>2,233,176</u>	<u>2,579,217</u>
Expenses		
Program services	1,951,044	2,353,822
General and administrative supporting services	220,349	175,216
Total Expenses	<u>2,171,393</u>	<u>2,529,038</u>
Increase in Net Assets Without Donor Restrictions	<u>61,783</u>	<u>50,179</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions of cash and other financial assets	3,538,954	1,394,760
Contributions of nonfinancial assets	82,784	77,720
Investment return, net	(3,458,443)	5,242,146
Net assets released from restrictions	<u>(2,232,653)</u>	<u>(2,575,247)</u>
(Decrease) Increase in Net Assets With Donor Restrictions	<u>(2,069,358)</u>	<u>4,139,379</u>
(DECREASE) INCREASE IN TOTAL NET ASSETS	<u>(2,007,575)</u>	<u>4,189,558</u>
NET ASSETS, BEGINNING OF YEAR	<u>26,677,618</u>	<u>22,488,060</u>
NET ASSETS, END OF YEAR	<u>\$ 24,670,043</u>	<u>\$ 26,677,618</u>

See accompanying notes to financial statements.

Henderson State University Foundation

Statements of Functional Expenses Years Ended June 30, 2022 and 2021

	2022			2021		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Scholarship awards	\$ 419,156	\$ -	\$ 419,156	\$ 395,589	\$ -	\$ 395,589
Athletics	1,129,152	-	1,129,152	1,561,811	-	1,561,811
Awards and gifts	176,808	-	176,808	292,112	-	292,112
Individual college expenses	187,784	-	187,784	55,090	-	55,090
Salaries and benefits	12,710	19,066	31,776	-	-	-
Contributed salaries and benefits	25,434	57,350	82,784	49,220	28,500	77,720
Professional fees	-	36,000	36,000	-	37,500	37,500
Software license	-	90,728	90,728	-	89,209	89,209
Rent	-	4,153	4,153	-	3,833	3,833
Other	-	13,052	13,052	-	16,174	16,174
TOTAL EXPENSES	\$ 1,951,044	\$ 220,349	\$ 2,171,393	\$ 2,353,822	\$ 175,216	\$ 2,529,038

See accompanying notes to financial statements.

Henderson State University Foundation

Statements of Cash Flows Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) Increase in Total Net Assets	\$ (2,007,575)	\$ 4,189,558
Adjustments to Reconcile (Decrease) Increase in Total Net Assets to Net Cash Provided by Operating Activities		
Bad debt expense	-	17,480
Net depreciation (appreciation) in fair value of investments	3,870,270	(4,855,320)
Construction in progress	-	79,418
Changes in operating assets and liabilities:		
Accrued interest receivable	(201)	148
Other receivable	-	44,278
Contributions receivable	(337,360)	909,174
Prepaid expenses	-	3,834
Accounts payable	(56,015)	56,015
Net Cash Provided by Operating Activities	<u>1,469,119</u>	<u>444,585</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investments	7,643,020	1,702,927
Purchases of investments	(9,306,768)	(2,686,104)
Net Cash Used by Investing Activities	<u>(1,663,748)</u>	<u>(983,177)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	297,337	-
Net Cash Provided by Financing Activities	<u>297,337</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	102,708	(538,592)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,278,467</u>	<u>1,817,059</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,381,175</u></u>	<u><u>\$ 1,278,467</u></u>

See accompanying notes to financial statements.

Henderson State University Foundation

Notes to Financial Statements June 30, 2022 and 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

Henderson State University Foundation (the Foundation) was incorporated under the laws of the State of Arkansas and is a component unit of the Arkansas State University System. The Foundation's primary purpose is to receive, invest and manage gifts for the development, growth, expansion, progress, accomplishment of educational objectives, development of the physical plant, improvement of faculty and staff, and aid to the student body and alumni of Henderson State University (the University).

The activities of the Foundation are the responsibility of the Board of Directors (the Board) of the Foundation, the members of which are nominated by the Board.

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 Restrictions—Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

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

Cash and Cash Equivalents

For purposes of presentation in the statements of cash flows, cash and cash equivalents include all highly liquid investments with original maturities of three months or less. At times during the years ended June 30, 2022 and 2021, cash and cash equivalents 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, the excess over FDIC or SIPC insurance may not be recoverable. For the years ended June 30, 2022 and 2021, approximately \$626,000 and \$153,000, were not insured or collateralized, respectively.

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 2 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.

Henderson State University Foundation

Notes to Financial Statements June 30, 2022 and 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Contributed investment securities are recorded based on the average of the high and low market prices on the date the investment securities are received. Generally, the Foundation liquidates contributed investment securities on the same day they are received, or as soon as reasonably possible thereafter. The difference between the initial recorded value and the sales proceeds is included in investment return on the statements of activities.

Revenue and Revenue Recognition

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 recorded 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.

Management expects all unconditional promises to give to be fully collected; therefore, no allowance for uncollectible amounts has been recorded.

Functional Expenses

The Foundation allocates its expenses on a functional basis among various programs 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. Salaries and benefits are common to several functions and are allocated to programs and supporting services based on estimates of time worked.

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.

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.

Henderson State University Foundation

Notes to Financial Statements June 30, 2022 and 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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, 2022 and 2021, 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.

Recently Adopted Accounting Standards

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets, (Topic 958)*. The new guidance requires contributed nonfinancial assets to be presented as a separate line item in the statement of activities apart from contributions of cash and other financial assets. The guidance also requires a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets, whether the contributed nonfinancial assets were monetized or utilized and if utilized, a description of the programs or other activities in which those assets were used. If monetized, the standard requires disclosure of the Foundation's policy regarding monetizing rather than utilizing contributed nonfinancial assets as well as the valuation techniques used by management to arrive at fair value. Disclosure of any donor-imposed restrictions associated with the contributed nonfinancial assets is also required. Management of the Foundation adopted ASU No. 2020-07 during the year ended June 30, 2022. Implementation of this standard did not have any significant impact on the Foundation's financial statements.

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 statement of financial position 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 2: INVESTMENTS

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:

Henderson State University Foundation

Notes to Financial Statements June 30, 2022 and 2021

NOTE 2: INVESTMENTS (Continued)

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2 Inputs to the valuation methodology include the following:
- Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical or similar assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means
- If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset 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.

The fair values of mutual funds are determined based on the daily closing price as reported by the fund. These funds are required to publish their daily net asset value (NAV) and to transact at that price.

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 daily NAV at market close based on the value of the underlying securities.

The fair values 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 U.S. Treasury obligations, government-sponsored entity obligations and bonds are determined based on pricing models maximizing the use of observable inputs for similar securities.

The fair values of real property are determined based on an appraisal at the date of donation. The appraisal considered sales of comparable property at the date of donation.

Henderson State University Foundation

Notes to Financial Statements June 30, 2022 and 2021

NOTE 2: INVESTMENTS (Continued)

The preceding methods described 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 are the fair values of the Foundation's assets measured on a recurring and nonrecurring basis at June 30, 2022 and 2021. Level 1 and Level 2 investments are measured on a recurring basis and Level 3 investments are measured on a nonrecurring basis. No activity occurred in Level 3 investments during the years ended June 30, 2022 and 2021. There have been no changes in methodologies used at June 30, 2022 and 2021.

	June 30, 2022			
	Fair Value	Level 1	Level 2	Level 3
Investments				
Mutual funds				
Corporate bond	\$ 1,090,956	\$ 1,090,956	\$ -	\$ -
Intermediate government	1,122,716	1,122,716	-	-
High yield bond	1,072,195	1,072,195	-	-
Diversified emerging markets	692,116	692,116	-	-
Real estate	1,199,274	1,199,274	-	-
Total mutual funds	5,177,257	5,177,257	-	-
Exchange traded funds				
Small blend	531,148	531,148	-	-
Foreign large blend	2,433,516	2,433,516	-	-
Large value	4,419,035	4,419,035	-	-
Large blend	480,383	480,383	-	-
Large growth	3,516,313	3,516,313	-	-
Total exchange traded funds	11,380,395	11,380,395	-	-

(Continued)

Henderson State University Foundation

Notes to Financial Statements June 30, 2022 and 2021

NOTE 2: INVESTMENTS (Continued)

June 30, 2022				
	Fair Value	Level 1	Level 2	Level 3
Investments (Continued)				
Equity securities				
Consumer discretionary	\$ 304,188	\$ 304,188	\$ -	\$ -
Consumer staples	211,200	211,200	-	-
Energy	111,270	111,270	-	-
Financial services	407,700	407,700	-	-
Health care	290,679	290,679	-	-
Industrials	430,335	430,335	-	-
Information technology	474,046	474,046	-	-
Materials	152,132	152,132	-	-
Real estate	71,257	71,257	-	-
Telecommunication services	231,279	231,279	-	-
Transportation and logistics	36,955	36,955	-	-
Utilities	48,067	48,067	-	-
Total equity securities	<u>2,769,108</u>	<u>2,769,108</u>	<u>-</u>	<u>-</u>
U.S. Treasury obligations	<u>3,180,842</u>	<u>-</u>	<u>3,180,842</u>	<u>-</u>
Government-sponsored entity obligations	<u>183,636</u>	<u>-</u>	<u>183,636</u>	<u>-</u>
Real estate	<u>76,500</u>	<u>-</u>	<u>-</u>	<u>76,500</u>
	<u>\$ 22,767,738</u>	<u>\$ 19,326,760</u>	<u>\$ 3,364,478</u>	<u>\$ 76,500</u>
June 30, 2021				
	Fair Value	Level 1	Level 2	Level 3
Investments				
Mutual funds				
Corporate bond	\$ 1,331,707	\$ 1,331,707	\$ -	\$ -
Intermediate government	1,243,328	1,243,328	-	-
High yield bond	1,189,427	1,189,427	-	-
Diversified emerging markets	1,032,763	1,032,763	-	-
Real estate	1,273,983	1,273,983	-	-
Total mutual funds	<u>6,071,208</u>	<u>6,071,208</u>	<u>-</u>	<u>-</u>

(Continued)

Henderson State University Foundation

Notes to Financial Statements June 30, 2022 and 2021

NOTE 2: INVESTMENTS (Continued)

	June 30, 2021			
	Fair Value	Level 1	Level 2	Level 3
Investments (Continued)				
Exchange traded funds				
Small blend	\$ 529,633	\$ 529,633	\$ -	\$ -
Foreign large blend	2,943,338	2,943,338	-	-
Large value	4,140,708	4,140,708	-	-
Large blend	723,555	723,555	-	-
Large growth	4,197,751	4,197,751	-	-
Total exchange traded funds	<u>12,534,985</u>	<u>12,534,985</u>	<u>-</u>	<u>-</u>
Equity securities				
Consumer discretionary	263,124	263,124	-	-
Consumer staples	225,086	225,086	-	-
Energy	36,898	36,898	-	-
Financial services	436,114	436,114	-	-
Health care	231,645	231,645	-	-
Industrials	459,149	459,149	-	-
Information technology	412,940	412,940	-	-
Materials	134,066	134,066	-	-
Real estate	105,681	105,681	-	-
Telecommunication services	120,294	120,294	-	-
Utilities	62,431	62,431	-	-
Total equity securities	<u>2,487,428</u>	<u>2,487,428</u>	<u>-</u>	<u>-</u>
U.S. Treasury obligations	<u>3,257,447</u>	<u>-</u>	<u>3,257,447</u>	<u>-</u>
Government-sponsored entity obligations	<u>297,695</u>	<u>-</u>	<u>297,695</u>	<u>-</u>
Municipal bond	<u>248,997</u>	<u>-</u>	<u>248,997</u>	<u>-</u>
Real estate	<u>76,500</u>	<u>-</u>	<u>-</u>	<u>76,500</u>
	<u>\$ 24,974,260</u>	<u>\$ 21,093,621</u>	<u>\$ 3,804,139</u>	<u>\$ 76,500</u>

Henderson State University Foundation

Notes to Financial Statements June 30, 2022 and 2021

NOTE 3: CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable at June 30, 2022, include the following:

Contributions receivable	\$ 360,000
Less unamortized discount on long-term contributions receivable	<u>(22,640)</u>
	<u><u>\$ 337,360</u></u>

Contributions receivable at June 30, 2022, are expected to be collected as follows:

Amounts due in:	
Less than one year	\$ 100,000
One to five years	<u>260,000</u>
	<u><u>\$ 360,000</u></u>

Contributions receivable which are scheduled to be received after one year are reported at the present value of estimated future cash flows using a discount rate of five percent.

NOTE 4: WORKS OF ART

During the year ended June 30, 2020, the Foundation received a donation of artwork with an appraised value of approximately \$480,000. The Foundation intends to display the artwork for three years, at the end of which time it will be sold. Proceeds from the sale will be used to benefit the University's business program.

NOTE 5: CONSTRUCTION IN PROGRESS

The Foundation entered into a contract for the construction of a new facility on the campus of the University. The Foundation received a contribution on behalf of the University to fund the construction of the facility and incurred approximately \$1,279,000 in total construction costs related to the project. The project was completed, and ownership of the facility was transferred to the University during the year ended June 30, 2021. As of June 30, 2021, the Foundation had approximately \$56,000 in accounts payable related to the final construction costs of the facility. As of June 30, 2022, the Foundation has paid all outstanding invoices.

Henderson State University Foundation

Notes to Financial Statements June 30, 2022 and 2021

NOTE 6: NOTE PAYABLE

During the year ended June 30, 2022, the Foundation entered into a note payable with an investment banking firm (the Institution) to assist the University with a capital improvement project. The note payable, which bears interest at a variable rate using the broker's call rate plus a spread of 100 basis points, is payable upon demand. The agreement does not state any other fixed repayment terms. The note payable is secured by certain Foundation investments held by the Institution. The outstanding balance on the note payable at June 30, 2022, is \$297,337.

NOTE 7: ENDOWMENTS

The Foundation's endowment consists of approximately 300 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.

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 donor-restricted endowment, the original value of subsequent gifts to the donor-restricted endowment and accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instruments at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that will be released from restriction remains in net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

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 (7) the Foundation's investment and spending policies.

Henderson State University Foundation

Notes to Financial Statements June 30, 2022 and 2021

NOTE 7: ENDOWMENTS (Continued)

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 is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distribution to meet the operating needs of the Foundation, while growing the funds, if possible. Investment risk is measured in terms of the total endowment funds; investment assets and allocation between asset classes and strategies are managed to not expose the funds to unacceptable levels of risk.

The Foundation has a spending policy of appropriating for distribution each year 5.5% of its endowment fund's average fair value of the 5 years through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this spending policy, the Foundation considers 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.

Changes in donor-restricted endowment net assets are as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Endowment net assets, beginning of year	\$ 23,364,808	\$ 18,275,773
Contributions	1,790,558	427,470
Investment return, net	(3,663,636)	5,049,412
Appropriation of endowment assets for expenditure	<u>(405,906)</u>	<u>(387,847)</u>
Endowment net assets, end of year	<u>\$ 21,085,824</u>	<u>\$ 23,364,808</u>

NOTE 8: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of endowment income and contributions received with donor-imposed restrictions limiting the Foundation's use of contributed assets to a later period, a specific purpose or both. The amounts are transferred to net assets without donor restrictions in the period the donor-imposed restrictions expire or the donor-stipulated purpose has been fulfilled by the Foundation.

Henderson State University Foundation

Notes to Financial Statements June 30, 2022 and 2021

NOTE 8: NET ASSETS WITH DONOR RESTRICTIONS (Continued)

The following is a summary of net assets with donor restrictions at June 30:

	2022	2021
Net Assets Restricted in Perpetuity		
Athletics and other	\$ 4,210,311	\$ 4,197,669
Scholarship	10,754,889	9,050,029
	<u>\$ 14,965,200</u>	<u>\$ 13,247,698</u>
Net Assets Restricted for a Specific Purpose		
Athletics and other	\$ 4,515,317	\$ 6,010,977
Scholarship	3,457,444	6,116,802
Capital projects	1,059,563	1,028,765
	<u>\$ 9,032,324</u>	<u>\$ 13,156,544</u>
Net Assets Restricted to Passage of Time		
Athletics and other	<u>\$ 337,360</u>	<u>\$ -</u>

NOTE 9: RELATED PARTY TRANSACTIONS

During the years ended June 30, 2022 and 2021, the Foundation contributed to the University approximately \$1,945,000 and \$2,305,000, respectively, to be used for purposes as required by endowment agreements and/or donors for specific programs.

During the years ended June 30, 2022 and 2021, employees of the University were provided to oversee the operations of the Foundation. The Foundation reimbursed the University a portion of salaries and benefits in the amount of \$31,776 during the year ended June 30, 2022. The Foundation did not reimburse the University for salaries and benefits during the year ended June 30, 2021. The portion of salaries and benefits not reimbursed by the Foundation were donated by the University as an in-kind contribution in the amount of \$82,780 and \$77,720 for the years ended June 30, 2022 and 2021, respectively. These in-kind contributions are reflected as contributions of nonfinancial assets in the statements of activities and contributed salaries and benefits in the statements of functional expenses.

During the year ended June 30, 2016, the Foundation sold a building to the University. As part of the sale agreement, the sales price of the building to the University was reduced by \$23,000 in lieu of rent for the University owned space used by the Foundation through the year ended June 30, 2021.

During the year ended June 30, 2022, the Foundation entered into a month-to-month rental agreement with the University through June 30, 2023, to continue the use of University owned space by the Foundation. During the year ended June 30, 2022, rental expenses were approximately \$4,200.

Henderson State University Foundation

Notes to Financial Statements June 30, 2022 and 2021

NOTE 10: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Foundation monitors its liquidity so that it is able to 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:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,381,175	\$ 1,278,467
Accrued interest receivable	329	128
Contributions receivable, net	337,360	-
Investments	<u>22,767,738</u>	<u>24,974,260</u>
Total financial assets	24,486,602	26,252,855
Less endowment fund cash, cash equivalents and investments	(21,085,824)	(23,364,808)
Less contributions due in more than one year	(237,360)	-
Less other restrictions	(100,000)	-
Add back appropriations for years ended June 30, 2023 and 2022	<u>912,659</u>	<u>752,374</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 3,976,077</u></u>	<u><u>3,640,421</u></u>

The operations of the Foundation are primarily funded by income generated from investing its endowments and contributions. As explained in Note 8 to the financial statements, certain assets have been restricted by the donor in perpetuity. The Foundation structures its financial assets to be available as general expenditures, liabilities and other obligations become due. The University also contributes both services and rent to the Foundation (see Note 9). The Foundation can adjust the timing of disbursements to the University when necessary.

NOTE 11: 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.

Market disruptions associated with current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect assets and thus performance of the investments; at this time an aggregate effect on assets and performance cannot be reasonably estimated. Management is continuing to monitor these developments and evaluate other impacts they may have on investments.

Henderson State University Foundation

Notes to Financial Statements June 30, 2022 and 2021

NOTE 12: CONCENTRATIONS

During the year ended June 30, 2022, the Foundation received approximately 51% of contributions from one donor.

NOTE 13: SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 13, 2022, the date the financial statements were available to be issued.