



HENDERSON
STATE UNIVERSITY
HENDERSON FOUNDATION

FINANCIAL STATEMENTS
June 30, 2017 and 2016
(With Independent Auditor's Report Thereon)

**Thomas &
Thomas LLP**

Certified Public Accountants

Henderson State University Foundation

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Henderson State University Foundation
Arkadelphia, Arkansas

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, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

The Board of Directors
Henderson State University Foundation
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Opinion

In our opinion, the financial statements referred to on the preceding page present fairly, in all material respects, the financial position of **Henderson State University Foundation** as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Thomas & Thomas LLP
Certified Public Accountants

September 21, 2017
Little Rock, Arkansas

Financial Statements

Henderson State University Foundation

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 2,562,920	\$ 2,715,577
Accrued interest receivable	-	1,001
Amounts due for securities sold	20,213	-
Contributions receivable, net	119,318	189,152
Investments	14,988,709	12,938,882
Prepaid expenses	15,334	19,167
TOTAL ASSETS	<u>\$ 17,706,494</u>	<u>\$ 15,863,779</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 178,637	\$ -
Net Assets		
Unrestricted	161,979	138,364
Temporarily restricted	6,216,908	5,164,816
Permanently restricted	11,148,970	10,560,599
Total Net Assets	<u>17,527,857</u>	<u>15,863,779</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,706,494</u>	<u>\$ 15,863,779</u>

See accompanying notes to financial statements.

Henderson State University Foundation

STATEMENTS OF ACTIVITIES Years Ended June 30, 2017 and 2016

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted Support, Revenue and Gains		
Grants	\$ 29,404	\$ 385,775
Interest and dividends	26	-
Gain on sale of property and equipment	-	58,210
Net assets released from restrictions	1,769,225	2,596,683
Total Unrestricted Support, Revenue and Gains	1,798,655	3,040,668
Expenses		
Program services	1,644,729	2,869,749
Supporting services		
General and administrative	130,311	136,813
Total Expenses	1,775,040	3,006,562
Increase in Unrestricted Net Assets	23,615	34,106
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,313,368	1,196,977
Interest and dividends, net	570,620	707,835
Net appreciation (depreciation) in fair value of investments	937,329	(545,143)
Net assets released from restrictions	(1,769,225)	(1,677,700)
Increase (Decrease) in Temporarily Restricted Net Assets	1,052,092	(318,031)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	584,069	473,827
Interest and dividends	4,302	-
Net assets released from restrictions	-	(918,983)
Increase (Decrease) in Permanently Restricted Net Assets	588,371	(445,156)
INCREASE (DECREASE) IN TOTAL NET ASSETS	1,664,078	(729,081)
NET ASSETS, BEGINNING OF YEAR	15,863,779	16,592,860
NET ASSETS, END OF YEAR	\$ 17,527,857	\$ 15,863,779

See accompanying notes to financial statements.

Henderson State University Foundation

STATEMENTS OF CASH FLOWS Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Total Net Assets	\$ 1,664,078	\$ (729,081)
Adjustments to Reconcile Changes in Total Net Assets to Net Cash Provided (Used) by Operating Activities		
Depreciation	-	2,092
Gain on disposal of property and equipment	-	(58,210)
Donated securities	(91,849)	(164,649)
Net (appreciation) depreciation in fair value of investments	(937,329)	545,143
Changes in operating assets and liabilities:		
Accrued interest receivable	1,001	3,523
Accounts payable	178,637	-
Contributions receivable	69,834	(33,767)
Prepaid expenses	3,833	3,833
Net Cash Provided (Used) by Operating Activities	888,205	(431,116)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	-	123,894
Proceeds from sale and maturity of investments	14,028,919	1,329,073
Maturities of certificates of deposit	187,378	300,000
Purchases of investments, net	(15,257,159)	(1,542,278)
Net Cash (Used) Provided by Investing Activities	(1,040,862)	210,689
NET DECREASE IN CASH AND CASH EQUIVALENTS	(152,657)	(220,427)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,715,577	2,936,004
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,562,920	\$ 2,715,577
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Proceeds from sale of property and equipment included in prepaid expenses	\$ -	\$ 23,000

See accompanying notes to financial statements.

Henderson State University Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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 Henderson State University (the University). 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 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 and then confirmed by the University Board of Trustees.

(b) Basis of Accounting and Financial Statement Presentation

These financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Accounting principles generally accepted in the United States of America require the Foundation to report information regarding its financial position and activities according to three classes of net assets - unrestricted, temporarily restricted and permanently restricted.

(c) 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, 2017 and 2016, cash and cash equivalent balances 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, 2017 and 2016, approximately \$812,000 and \$2,041,000 were not insured or collateralized, respectively.

(d) 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. See Note 2 for further discussion of fair value measurements.

Realized and unrealized gains and losses on investments are included in net appreciation (depreciation) in fair value of investments in the statements of activities. Purchases and sales are recorded on the trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investment income and gains restricted by donors are reported as increases in permanently restricted net assets or temporarily restricted net assets, depending on the nature of the restrictions.

Henderson State University Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) 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 reflected on the statements of activities as net appreciation (depreciation) in fair value of investments.

For the years ended June 30, 2017 and 2016, expenses relating to investment income, including custodial fees and investment advisory fees, totaled \$34,557 and \$59,504, respectively, and have been netted against interest and dividend income in the statements of activities.

(e) Property and Equipment

Property and equipment are reported at historical cost or at the estimated fair value at the date of receipt for contributed assets. Major renewals and improvements are capitalized, while normal repairs and maintenance are expensed in the period incurred.

Depreciation of property and equipment is recorded using the straight-line method over estimated useful lives ranging from 3 to 39 years.

(f) Contributions

Contributions, including unconditional promises to give, are recognized as support in the statements of activities in the period received or when the Foundation becomes aware that a promise to give has been made, whichever occurs first.

Contributions that are restricted by the donor are recorded as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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

(g) Grant Income

Grant income includes funds received by the Foundation to pass through to the University. The Foundation has no required oversight of these funds other than receiving and disbursing these funds to the University. These disbursements are included in program expenses on the statements of activities in the same amount as shown as grant income.

Henderson State University Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Expense Allocation

The Foundation allocates its expenses on a functional basis among program and supporting services. Expenses that are directly related to the fiduciary services performed by the Foundation are included in program expenses. Expenses that are solely and directly related to operation and administration of the Foundation are included in supporting services. Such supporting services include various costs associated with administrative, financial, personnel, information systems, fundraising and other general and administrative functions of the Foundation. Other expenses that are common to several functions are allocated based on various statistical bases.

(i) 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.

(j) Income Taxes

Henderson State University Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation.

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, 2017 and 2016, 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.

(k) Recently Issued Accounting Standards

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The purpose of ASU No. 2016-14 is to amend existing financial reporting standards applicable to not-for-profit entities to improve the usefulness, relevance and clarity of information presented in financial statements and to enhance the information presented in the notes thereto. This new standard, which becomes effective for fiscal years beginning after December 15, 2017, requires the following:

- Presentation of two classes of net assets – net assets with donor restrictions and net assets without donor restrictions.
- Elimination of the requirement to present a reconciliation of cash flows using the indirect method if the organization elects to use the direct method for purposes of preparing the statement of cash flows.

Henderson State University Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Recently Issued Accounting Standards (Continued)

- Enhanced disclosures about governing board designations and other self-imposed limits on the use of resources, as well as the composition of net assets with donor restrictions at the end of the period and how those restrictions affect the use of resources.
- New disclosures containing qualitative information communicating how liquid resources are managed to meet cash needs for general expenditures within one year of the financial reporting date and quantitative information communicating the availability of resources to meet cash needs for general expenditures within one year of the financial reporting date.
- Presentation of expenses by natural and functional classification, either on the statement of activities, in a separate statement or in the notes to the financial statements.
- Reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhanced disclosures about underwater endowments.
- Enhanced disclosures about the method(s) used to allocate costs among program and support functions.
- Reporting of investment return net of external and direct internal investment expenses.

While this new standard will significantly impact the presentation of the financial statements and the content of disclosures in the notes to the financial statements, it is not expected to have a material impact on the recording or measurement of amounts presented therein.

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 fiscal years beginning after December 15, 2018. Early application is permitted for nonpublic business entities upon issuance. Management of the Foundation has not yet determined the significance of the impact of implementation of this standard or any related amendments.

(l) Reclassifications

Certain amounts presented in the Foundation's 2016 financial statements have been reclassified in order to conform to the 2017 presentation.

Henderson State University Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 under FASB Accounting Standards Codification are described as follows:

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 negotiable certificates of deposit are determined by discounting expected cash flows based on current yields of similar instruments with comparable durations, considering the credit-worthiness of the issuer.

Henderson State University Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 2: INVESTMENTS (Continued)

The fair values of U.S. Treasury obligations, government-sponsored entity obligations and municipal 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.

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. 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, 2017 and 2016. There have been no changes in methodologies used at June 30, 2017 and 2016:

	June 30, 2017			
	Fair Value	Level 1	Level 2	Level 3
Investments				
Mutual funds				
Corporate bond	\$ 874,404	\$ 874,404	\$ -	\$ -
Intermediate government	851,236	851,236	-	-
High yield bond	711,150	711,150	-	-
Diversified emerging markets	539,473	539,473	-	-
Tactical tilts	688,050	688,050	-	-
Real estate	703,867	703,867	-	-
Total mutual funds	<u>4,368,180</u>	<u>4,368,180</u>	<u>-</u>	<u>-</u>
Exchange traded funds				
Small blend	217,271	217,271	-	-
Large blend	263,804	263,804	-	-
Foreign large blend	1,704,243	1,704,243	-	-
Emerging markets bond	9,949	9,949	-	-
Corporate bond	55,263	55,263	-	-
Large value	1,690,186	1,690,186	-	-
Large growth	1,591,938	1,591,938	-	-
Commodities	13,501	13,501	-	-
Real estate	51,686	51,686	-	-
Total exchange traded funds	<u>5,597,841</u>	<u>5,597,841</u>	<u>-</u>	<u>-</u>

(Continued)

Henderson State University Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 2: INVESTMENTS (Continued)

	June 30, 2017			
	Fair Value	Level 1	Level 2	Level 3
Investments (Continued)				
Equities				
Consumer discretionary	\$ 212,217	\$ 212,217	\$ -	\$ -
Consumer staples	269,978	269,978	-	-
Energy	90,226	90,226	-	-
Financial services	384,407	384,407	-	-
Health care	310,561	310,561	-	-
Industrials	327,004	327,004	-	-
Information technology	500,178	500,178	-	-
Materials	60,647	60,647	-	-
Real estate	81,708	81,708	-	-
Telecommunication services	75,966	75,966	-	-
Utilities	61,846	61,846	-	-
Total equities	<u>2,374,738</u>	<u>2,374,738</u>	<u>-</u>	<u>-</u>
U.S. Treasury obligations	<u>1,999,736</u>	<u>-</u>	<u>1,999,736</u>	<u>-</u>
Government-sponsored entity obligations	<u>318,921</u>	<u>-</u>	<u>318,921</u>	<u>-</u>
Municipal bond	<u>252,793</u>	<u>-</u>	<u>252,793</u>	<u>-</u>
Real estate	<u>76,500</u>	<u>-</u>	<u>-</u>	<u>76,500</u>
	<u>\$ 14,988,709</u>	<u>\$ 12,340,759</u>	<u>\$ 2,571,450</u>	<u>\$ 76,500</u>
June 30, 2016				
	Fair Value	Level 1	Level 2	Level 3
Investments				
Mutual funds				
Short term bond	\$ 1,536,911	\$ 1,536,911	\$ -	\$ -
Intermediate term bond	1,549,719	1,549,719	-	-
Multisector bond	636,856	636,856	-	-
Large growth	1,216,255	1,216,255	-	-
Large blend	1,065,086	1,065,086	-	-
Large value	1,224,849	1,224,849	-	-
Real estate	467,893	467,893	-	-
World allocation	807,065	807,065	-	-
World stock	584,286	584,286	-	-
Total mutual funds	<u>9,088,920</u>	<u>9,088,920</u>	<u>-</u>	<u>-</u>

(Continued)

Henderson State University Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 2: INVESTMENTS (Continued)

	June 30, 2016			
	Fair Value	Level 1	Level 2	Level 3
Investments (Continued)				
Exchange traded funds				
Mid cap blend	\$ 806,963	\$ 806,963	\$ -	\$ -
Large blend	1,414,542	1,414,542	-	-
Foreign large blend	324,537	324,537	-	-
Emerging markets bond	10,018	10,018	-	-
Corporate bond	56,033	56,033	-	-
Equity energy	273,847	273,847	-	-
Commodities	14,109	14,109	-	-
Real estate	55,064	55,064	-	-
Total exchange traded funds	2,955,113	2,955,113	-	-
Equities				
Consumer defense	16,281	16,281	-	-
Energy	7,971	7,971	-	-
Financial services	24,766	24,766	-	-
Health care	12,990	12,990	-	-
Industrials	5,837	5,837	-	-
Utilities	2,145	2,145	-	-
Total equities	69,990	69,990	-	-
Negotiable certificates of deposit	98,403	-	98,403	-
Government-sponsored entity obligations	389,766	-	389,766	-
Municipal bond	260,190	-	260,190	-
Real estate	76,500	-	-	76,500
	\$ 12,938,882	\$ 12,114,023	\$ 748,359	\$ 76,500

NOTE 3: CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable at June 30 include the following:

	2017	2016
Contributions receivable	\$ 123,000	\$ 200,000
Less unamortized discount on long-term contributions receivable	(3,682)	(10,848)
	\$ 119,318	\$ 189,152

Henderson State University Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 3: CONTRIBUTIONS RECEIVABLE, NET (Continued)

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

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 52,000	\$ 52,000
One to five years	<u>71,000</u>	<u>148,000</u>
	<u>\$ 123,000</u>	<u>\$ 200,000</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 four percent.

NOTE 4: 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 permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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 policies.

The Foundation has adopted investment and spending policies, approved by the Board of Directors, 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,

Henderson State University Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 4: ENDOWMENTS (Continued)

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 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 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 for the years ended June 30 are as follows:

	2017		2016	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 3,063,419	\$ 10,560,599	\$ 2,772,412	\$ 11,005,755
Contributions	16,139	584,069	8,911	473,827
Interest and dividends, net	570,620	4,302	707,835	-
Net appreciation (depreciation) in fair value of investments	937,329	-	(545,143)	-
Appropriation of endowment assets for expenditure	(416,110)	-	(799,579)	-
Permanently restricted transferred to temporarily restricted per donor agreements	-	-	918,983	(918,983)
Endowment net assets, end of year	\$ 4,171,397	\$ 11,148,970	\$ 3,063,419	\$ 10,560,599

NOTE 5: NET ASSETS

Temporarily restricted net assets consist of endowment income and contributions received with donor-imposed restrictions limiting the Foundation's use of contributed assets to a later period, a specific purpose or both. The amounts are transferred to unrestricted net assets 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, 2017 and 2016

NOTE 5: NET ASSETS (Continued)

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2017</u>	<u>2016</u>
Athletics and other	\$ 3,275,986	\$ 2,788,568
Scholarship	2,385,234	1,810,478
Capital projects	555,688	565,770
	<u>\$ 6,216,908</u>	<u>\$ 5,164,816</u>

The following provides a description of the purposes for which net assets are permanently restricted at June 30:

	<u>2017</u>	<u>2016</u>
Athletics and other	\$ 4,020,618	\$ 3,985,489
Scholarship	7,128,352	6,575,110
	<u>\$ 11,148,970</u>	<u>\$ 10,560,599</u>

NOTE 6: RELATED PARTY TRANSACTIONS

During the years ended June 30, 2017 and 2016, the Foundation contributed to the University approximately \$1,595,000 and \$2,516,000 to be used for purposes as required by endowment agreements and/or donors for specific programs.

During the years ended June 30, 2017 and 2016, two employees of the University were provided to the Foundation to oversee the operations. For each of the years ended June 30, 2017 and 2016, the Foundation reimbursed the University approximately \$51,000 for salary expense. The University contributed in-kind salary expense of \$29,213 and \$28,750 for the years ended June 30, 2017 and 2016, respectively. These in-kind contributions are included in contributions and expenses in the statements of activities.

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 through the year ended June 30, 2021, for the space used by the Foundation for operations and owned by the University.

NOTE 7: SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 21, 2017, the date the financial statements were available to be issued.