# NORFOLK STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL REPORT

## DECEMBER 31, 2022

PBMares

ASSURANCE, TAX & ADVISORY SERVICES

**NORFOLK STATE UNIVERSITY FOUNDATION, INC.**
**AND SUBSIDIARIES**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Norfolk State University Foundation, Inc. and Subsidiaries

### Opinion

We have audited the consolidated financial statements of Norfolk State University Foundation, Inc. and Subsidiaries (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, and the changes in their net assets and their 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 the 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 within one year after the date that the financial statements are issued or 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.

*PBMares, LLP*

Norfolk, Virginia
September 28, 2023

# CONSOLIDATED FINANCIAL STATEMENTS

**NORFOLK STATE UNIVERSITY FOUNDATION, INC.
AND SUBSIDIARIES**

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
**December 31, 2022 and 2021**

| | 2022 | 2021 |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents | **$ 5,775,183** | $ 12,757,712 |
| Investments | **82,858,027** | 84,833,130 |
| Promises to Give, net | **6,908,954** | 4,002,188 |
| Interest in Charitable Remainder Unitrusts | **372,350** | 231,246 |
| Property and Equipment, net | **2,315,927** | 2,333,853 |
| Right-of-use Assets, operating lease | **105,832** | - |
| Other Assets | **10,354** | 35,812 |
| **Total assets** | **$ 98,346,627** | $ 104,193,941 |
| | | |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities | | |
| Accounts payable | **$ 214,103** | $ 208,922 |
| Split-interest agreement liability | **-** | 18,487 |
| Operating lease liability | **103,746** | - |
| **Total liabilities** | **317,849** | 227,409 |
| Net Assets | | |
| Without donor restrictions | | |
| Operating | **1,378,813** | 856,462 |
| Board designated | **2,897,475** | 2,864,155 |
| Quasi endowment, board designated | **34,895,240** | 44,906,109 |
| Property and equipment | **2,315,927** | 2,333,853 |
| **Total without donor restrictions** | **41,487,455** | 50,960,579 |
| With donor restrictions | **56,541,323** | 53,005,953 |
| **Total net assets** | **98,028,778** | 103,966,532 |
| **Total liabilities and net assets** | **$ 98,346,627** | $ 104,193,941 |

**NORFOLK STATE UNIVERSITY FOUNDATION, INC.**
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**
**Years Ended December 31, 2022 and 2021**

| | Without Donor Restrictions | With Donor Restrictions | 2022 Total | Without Donor Restrictions | With Donor Restrictions | 2021 Total |
|---|---|---|---|---|---|---|
| Revenues and Support | | | | | | |
| Contributions | $ 325,486 | $ 10,552,636 | $ 10,878,122 | $ 411,280 | $ 9,185,470 | $ 9,596,750 |
| Net investment income | 674,110 | 515,728 | 1,189,838 | 14,884 | 15,356 | 30,240 |
| Net realized and unrealized investment gains (losses) | (7,701,989) | (5,906,189) | (13,608,178) | 4,692,295 | 5,775,656 | 10,467,951 |
| Net assets released from restrictions: | | | | | | |
| Satisfaction of program and time restrictions | 1,626,805 | (1,626,805) | - | 3,831,576 | (3,831,576) | - |
| **Total revenues and support** | (5,075,588) | 3,535,370 | (1,540,218) | 8,950,035 | 11,144,906 | 20,094,941 |
| Expenses | | | | | | |
| Program services | 3,717,726 | - | 3,717,726 | 3,200,338 | - | 3,200,338 |
| Administrative | 579,429 | - | 579,429 | 464,220 | - | 464,220 |
| Fundraising | 100,381 | - | 100,381 | 108,076 | - | 108,076 |
| **Total expenses** | 4,397,536 | - | 4,397,536 | 3,772,634 | - | 3,772,634 |
| **Change in net assets** | (9,473,124) | 3,535,370 | (5,937,754) | 5,177,401 | 11,144,906 | 16,322,307 |
| Net Assets, beginning of year | 50,960,579 | 53,005,953 | 103,966,532 | 45,783,178 | 41,861,047 | 87,644,225 |
| Net Assets, end of year | $ 41,487,455 | $ 56,541,323 | $ 98,028,778 | $ 50,960,579 | $ 53,005,953 | $ 103,966,532 |

See Notes to Consolidated Financial Statements.

## NORFOLK STATE UNIVERSITY FOUNDATION, INC.
## AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
**Year Ended December 31, 2022**

| | Program Services | Administrative | Fundraising | Total |
|---|---|---|---|---|
| Advertising | $ 7,848 | $ 825 | - | $ 8,673 |
| Bad Debt | 365,801 | - | - | 365,801 |
| Bank and Investment Fees | 243,258 | 29,364 | - | 272,622 |
| Conferences and Training | 74,161 | 15,963 | - | 90,124 |
| Consulting Services | 138,206 | 19,318 | - | 157,524 |
| Equipment | 73,686 | 1,564 | - | 75,250 |
| Insurance | 13,373 | 14,290 | 46,464 | 74,127 |
| Internet Services | 17,038 | 625 | - | 17,663 |
| Lease and Office Rent | - | 10,750 | - | 10,750 |
| Legal | 3,280 | 5,502 | - | 8,782 |
| Meals and Entertainment | 213,743 | 16,640 | - | 230,383 |
| Miscellaneous | 68,616 | 36,249 | - | 104,865 |
| Other Wages and Stipends | 192,278 | 60,846 | 45,782 | 298,906 |
| Payroll | 205,103 | 149,027 | - | 354,130 |
| Payroll Benefits and Taxes | 21,831 | 69,933 | 3,534 | 95,298 |
| Postage | 3,665 | 1,764 | - | 5,429 |
| Printing and Publications | 14,859 | 282 | - | 15,141 |
| Prizes and Awards | 75,867 | 6,390 | - | 82,257 |
| Professional Dues and Subscriptions | 44,112 | 26,477 | - | 70,589 |
| Professional Fees | - | 36,607 | 2,763 | 39,370 |
| Property Taxes | 2,877 | 2,301 | 575 | 5,753 |
| Repairs and Maintenance | 390 | 21,963 | - | 22,353 |
| Scholarships | 1,498,189 | - | - | 1,498,189 |
| Software Purchases | 86,750 | 6,148 | - | 92,898 |
| Special Events | 55,133 | 5,500 | - | 60,633 |
| Sponsorship Support | 15,900 | 6,438 | - | 22,338 |
| Supplies | 153,367 | 12,241 | - | 165,608 |
| Travel | 122,080 | 17,370 | - | 139,450 |
| Total expenses before depreciation and amortization | 3,711,411 | 574,377 | 99,118 | 4,384,906 |
| Depreciation and amortization | 6,315 | 5,052 | 1,263 | 12,630 |
| **Total expenses** | $ 3,717,726 | $ 579,429 | $ 100,381 | $ 4,397,536 |

## NORFOLK STATE UNIVERSITY FOUNDATION, INC.
## AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
**Year Ended December 31, 2021**

| | Program Services | Administrative | Fundraising | Total |
|---|---|---|---|---|
| Advertising | $ 18,503 | $ - | $ - | $ 18,503 |
| Bad Debt | 92,235 | - | - | 92,235 |
| Bank and Investment Fees | 149,642 | - | - | 149,642 |
| Conferences and Training | 16,595 | - | - | 16,595 |
| Consulting Services | 104,941 | 5,245 | - | 110,186 |
| Equipment | 14,616 | 1,689 | - | 16,305 |
| Insurance | 19,167 | 12,573 | 44,799 | 76,539 |
| Internet Services | 15,975 | - | - | 15,975 |
| Lease and Office Rent | 6,375 | 4,875 | 3,750 | 15,000 |
| Legal | 38,549 | 11,494 | - | 50,043 |
| Meals and Entertainment | 45,649 | 14,838 | - | 60,487 |
| Miscellaneous | 147,380 | 41,092 | 204 | 188,676 |
| Other Wages and Stipends | 196,746 | 72,421 | 51,207 | 320,374 |
| Payroll | 328,827 | 147,514 | - | 476,341 |
| Payroll Benefits and Taxes | 7,987 | 45,855 | 3,660 | 57,502 |
| Postage | 1,401 | 2,981 | - | 4,382 |
| Printing and Publications | 36,192 | 2,001 | - | 38,193 |
| Prizes and Awards | 28,777 | 2,490 | - | 31,267 |
| Professional Dues and Subscriptions | 34,824 | 21,726 | - | 56,550 |
| Professional Fees | 7,848 | 23,545 | - | 31,393 |
| Property Taxes | 2,748 | 2,198 | 550 | 5,496 |
| Repairs and Maintenance | 15,530 | - | - | 15,530 |
| Scholarships | 1,680,363 | 9,830 | - | 1,690,193 |
| Software Purchases | 57,357 | 731 | - | 58,088 |
| Special Events | 45 | - | - | 45 |
| Sponsorship Support | 13,650 | 15,538 | - | 29,188 |
| Supplies | 49,850 | 7,599 | - | 57,449 |
| Transfers | 11,020 | 2,364 | - | 13,384 |
| Travel | 38,020 | - | - | 38,020 |
| Total expenses before depreciation and amortization | 3,180,812 | 448,599 | 104,170 | 3,733,581 |
| Depreciation and Amortization | 19,526 | 15,621 | 3,906 | 39,053 |
| Total expenses | $ 3,200,338 | $ 464,220 | $ 108,076 | $ 3,772,634 |

**NORFOLK STATE UNIVERSITY FOUNDATION, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021**

| | 2022 | 2021 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Change in net assets | $ (5,937,754) | $ 16,322,307 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Contributions restricted for long-term investment | (2,949,987) | (2,520,000) |
| Non-cash contribution of property and equipment | - | (2,500) |
| Net realized and unrealized investment (gains) losses | 13,608,178 | (10,467,951) |
| Dividends and interest reinvested | (1,189,838) | (30,240) |
| Change in value of split-interest agreement liability | (18,487) | (19,833) |
| Bad debt provision | (365,801) | (92,235) |
| Depreciation and amortization | 12,630 | 39,053 |
| Amortization of right-of-use assets - operating leases | (42,201) | - |
| Change in assets and liabilities: | | |
| Promises to give | (2,665,028) | 306,118 |
| Interest in charitable remainder unitrusts | (141,104) | (5,757) |
| Other assets | 25,458 | (4,400) |
| Accounts payable | 5,181 | 106,980 |
| Operating lease liability | 40,115 | - |
| **Net cash provided by (used in) operating activities** | 381,362 | 3,631,542 |
| Cash Flows from Investing Activities | | |
| Purchases of investments | (87,676,946) | (35,000,000) |
| Proceeds from sale of investments | 77,233,709 | 211,151 |
| Purchase of property and equipment | 5,296 | (2,000,000) |
| **Net cash used in investing activities** | (10,437,941) | (36,788,849) |
| Cash Flows from Financing Activities | | |
| Payments on capital lease obligation | - | (2,024) |
| Collections of contributions restricted for long-term investment | 3,074,050 | 2,831,301 |
| **Net cash provided by financing activities** | 3,074,050 | 2,829,277 |
| **Net decrease in cash and cash equivalents** | (6,982,529) | (30,328,030) |
| Cash and Cash Equivalents, beginning of year | 12,757,712 | 43,085,742 |
| Cash and Cash Equivalents, end of year | $ 5,775,183 | $ 12,757,712 |
| Supplemental Disclosure of Non-Cash Activities | | |
| In-kind gifts received | $ - | $ 2,500 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Organization and Nature of Activities

The accompanying consolidated financial statements include the accounts of Norfolk State University Foundation, Inc. and its wholly owned subsidiaries, NSUF Holdings, LLC and Marshall Avenue Properties, Inc. (collectively, the Foundation). The Foundation is a not-for-profit organization established to provide financial support to Norfolk State University (the University). NSUF Holdings, LLC was established on May 5, 2021 to acquire and hold real property at 805 Park Avenue, Norfolk VA.

### Note 2. Summary of Significant Accounting Policies

***Basis of presentation:*** The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Foundation is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. Support that is restricted by the donor is, however, reported as an increase in net assets without donor restrictions if the restriction expires or is otherwise satisfied in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires or is otherwise satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions. Details related to net assets with donor restrictions are included in Note 8 and Note 9.

***Principles of consolidation:*** The consolidated financial statements include the accounts of Norfolk State University Foundation, Inc., NSUF Holdings, LLC, and Marshall Avenue Properties, Inc., which are described above (collectively referred to as the Foundation). All significant inter-organization balances and transactions have been eliminated.

***Cash and cash equivalents:*** The Foundation considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. Cash funds held in the Foundation's investment account are reported as investments instead of cash and cash equivalents because the Foundation holds those funds as an endowment.

***Investments:*** Investments in securities with readily determinable fair values and investments in debt securities are valued at their fair values in the consolidated statements of financial position. Realized and unrealized gains and losses have been recognized in the consolidated statements of activities. Certain investment expenses have been netted against investment income on the consolidated statements of activities.

The Foundation's investments are managed by external investment managers in compliance with investment guidelines established by the Board of Directors (the Board).

***Promises to give and contributions:*** Contributions received are recorded as with donor restrictions or without donor restrictions depending on the existence of any donor restrictions. Contributions are recorded as without donor restrictions unless specifically restricted by the donor. Contributions of cash and other property are recognized as income when received. Contributions include grant funds provided to the Foundation by the University for investment in the Foundation's endowment.

### Note 2. Summary of Significant Accounting Policies (Continued)

Restricted contributions of cash, other property and donor-restricted interest and dividend income are recorded as income with donor restrictions, and then are transferred to without donor restrictions when such resources are expended in accordance with the stipulated purpose restriction or when the time restrictions of such gifts are met.

Unconditional promises to give, less an allowance for uncollectible amounts, are reported as income in the year pledged. The promises to give are adjusted to fair value annually.

***Property and equipment:*** Property and equipment are stated at cost. Donated land is recorded at fair value at the date of gift. The Foundation's policy is to capitalize furniture and equipment purchased with a cost greater than $2,500. Depreciation of office equipment and furniture is computed using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Office equipment | 3-5 years |
| Furniture | 7-15 years |

***Functional expense allocations:*** The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Directly identifiable expenses are allocated to program and administrative services. Expenses related to more than one function are charged to program and administrative services based on estimates made by management. Administrative services include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

***Credit risk and concentrations:*** Financial instruments, which potentially subject the Foundation to concentration of credit risk, consist principally of cash, investments, and promises to give. The Foundation places unrestricted cash and temporary overnight investments with high credit quality financial institutions. At times the balances may exceed the FDIC insurable limit.

Unconditional promises to give, net of any uncollectible allowance, include unconditional promises to give from two donors of $4,772,999, which represents 63% of total net unconditional promises to give as of December 31, 2022. Unconditional promises to give, net of any uncollectible allowance, include unconditional promises to give from one donor of $2,591,666, which represents 65% of total net unconditional promises to give as of December 31, 2021.

Contributions received from one donor in the amount of $5,000,000 represent 46% of contributions received during the year ended December 31, 2022. Contributions received from three donors in the amount of $4,120,000 represents 43% of contributions received during the year ended December 31, 2021.

***Estimates:*** The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and disclosure of contingent assets and liabilities for the reported years. Actual results could differ from those estimates and assumptions.

## Note 2. Summary of Significant Accounting Policies (Continued)

***Income tax status:*** The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and the tax statutes of the Commonwealth of Virginia; accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal and state income taxes. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Foundation's management has evaluated the impact of the standard to its consolidated financial statements.

The Foundation's income tax returns are subject to examination by taxing authorities, generally for a period of three years from the date the returns are filed. The Foundation's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively. Marshall Avenue Properties, Inc., a Virginia C-Corporation, had no activity during 2022 and 2021 and, therefore, did not file a return nor incur a tax liability. Certain investment earnings may be subject to unrelated business income tax but the earnings have been immaterial. The Foundation has determined that it does not have any material unrecognized tax obligations as of December 31, 2022.

***Adopted accounting pronouncements:*** As of January 1, 2022, the Foundation adopted Accounting Standards Update ("ASU") 2016-02, *Leases*, which was amended in some respects by subsequent ASUs (collectively "ASC 842") and supersedes existing lease guidance. The standard requires the Foundation to record operating lease assets and corresponding lease liabilities on the balance sheet and disclose key quantitative and qualitative information about lease contracts.

Under ASC 842, the Foundation determines if a contract is a leasing arrangement and the classification of that lease, if applicable, at inception. Operating lease assets represent the right to control the use of an identified asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. For operating leases, the Foundation uses the risk-free rate of return. The Foundation recognizes operating lease expense for operating leases on a straight-line basis over the lease term.

The Foundation leases office space and a vehicle under non-cancelable operating leases which may include renewal or termination options that are reasonably certain of exercise. Leases with an initial term of 12 months or less are not recorded on the balance sheet and are expensed on a straight-line basis.

***Subsequent events:*** The Foundation has evaluated subsequent events through September 28, 2023, the date these financial statements were available to be issued. The Foundation has determined that there are no other subsequent events that require disclosure pursuant to the FASB ASC.

**Note 3. Liquidity and Availability**

As of December 31, 2022 and 2021, financial assets and liquidity resources available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Cash and cash equivalents | **$** | **5,775,183** | $ | 12,757,712 |
| Operating investments | | **434,206** | | 398,929 |
| Promises to give | | **-** | | 25,364 |
| Endowment spending-rate distributions and appropriations | | **2,681,233** | | 2,024,698 |
| | **$** | **8,890,622** | $ | 15,206,703 |

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Foundation's board-designated endowment funds of $34,895,240 and $44,906,109 at December 31, 2022 and 2021, respectively, are subject to an annual spending rate of 4 percent. Although the Foundation does not intend to spend from these board-designated endowment funds (other than amounts appropriated for general expenditure as part of the Foundation board of director's annual budget approval and appropriation), these amounts could be made available if necessary.

An additional $2,897,475 and $2,864,155 of funds were designated by the Foundation's board of directors at December 31, 2022 and 2021, respectively, to be used for payment of utilities and maintenance of certain Foundation-owned property as well as for consulting fees relating to the future use and renovations of this property and other potential property acquisitions. Although the Foundation does not intend to utilize these board designated funds beyond their budgeted usage, these funds could be made available by board vote if necessary.

As part of the Foundation's liquidity management plan, the Foundation invests cash in excess of daily requirements in short-term investments and money market funds. The Foundation held $4,504,729 and $1,023,899 at December 31, 2022 and 2021, respectively, in short-term investments which can be drawn upon in the event of an unanticipated liquidity need.

**Note 4. Promises to Give**

Promises to give represent commitments made by individuals, corporations and organizations for various purposes. The following details the timing of expected receipts on promises to give:

| | **2022** | | |
|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
| Current | **$ 12,440** | **$ 2,534,740** | **$ 2,547,180** |
| Due in one to five years | **-** | **4,340,305** | **4,340,305** |
| Due in over five years | **-** | **365,912** | **365,912** |
| | **12,440** | **7,240,957** | **7,253,397** |
| Time value discount | **(165)** | **(238,168)** | **(238,333)** |
| Allowance for uncollectible promises to give | **(12,275)** | **(93,835)** | **(106,110)** |
| | **$ -** | **$ 6,908,954** | **$ 6,908,954** |

| | 2021 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Current | $ 61,649 | $ 1,070,406 | $ 1,132,055 |
| Due in one to five years | - | 2,717,859 | 2,717,859 |
| Due in over five years | - | 368,792 | 368,792 |
| | 61,649 | 4,157,057 | 4,218,706 |
| Time value discount | (1,123) | (180,233) | (181,356) |
| Allowance for uncollectible promises to give | (35,162) | - | (35,162) |
| | $ 25,364 | $ 3,976,824 | $ 4,002,188 |

In order to simplify their accounting process for promises to give, the Foundation has elected to record all promises to give at fair value; the process utilizes the income approach with discounted cash flows, providing a single discounted value for all promises to give. The interest rate used for fair value was 2% for 2022 and 2021.

## Note 5. Charitable Split-Interest Agreements

The Foundation is named as a beneficiary of charitable remainder unitrusts in the amount of $372,390 initially deposited with a third-party trustee and subsequently invested in various equity mutual funds. The gifts were valued at inception using the fair value of the donations, a trust payout rate of 5% and Internal Revenue Code discount rates. The remainder interest is revalued annually and was $372,350 and $231,246 at December 31, 2022 and 2021, respectively.

The Foundation also has beneficial interests in several charitable gift annuities. The contribution portion of the agreements are recognized as revenue when the Foundation has the unconditional right to receive benefits under the agreements and is measured at the expected future payments to be received. Any assets received under a trust agreement are recorded at fair value. Any liabilities to third-party beneficiaries are recorded at the present value of the expected payments. All present value calculations are made using federal discount rates and life expectancy tables. During the term of the agreements, any changes in actuarial assumptions are recognized as changes in value of split-interest agreements and recorded as an adjustment to contributions in the consolidated statements of activities. The discount rate used to value the gifts was approximately 5% for 2022 and 2021. All annuity payments are made yearly. The net split-interest agreement asset (liability) is valued annually and was $1,440 and $(18,487) at December 31, 2022 and 2021, respectively.

## Note 6. Property and Equipment

On May 21, 2021, the Foundation purchased land and building for $2,000,000 that is still being renovated and was not placed in service as of December 31, 2022 and 2021. No depreciation has been recorded for the property as of December 31, 2022. Property and equipment are comprised of the following:

| | **2022** | 2021 |
|---|---|---|
| Land | **$ 148,210** | $ 148,210 |
| Construction in progress | **1,876,100** | 1,876,100 |
| Office equipment and furniture | **1,130,738** | 1,128,156 |
| | **3,155,048** | 3,152,466 |
| Accumulated depreciation | **(839,121)** | (818,613) |
| | **$ 2,315,927** | $ 2,333,853 |

### Note 7. Related Party Transactions

The Foundation administers certain grants on behalf of the University's departments and faculty. Under the terms of the various grant agreements, the Foundation receives funds from the grantor and disburses them to the grantees as grant activities are conducted. Alternatively, under certain agreements, the Foundation disburses funds to the grantees and receives reimbursement from the grantor.

No amounts have been reflected in the Foundation's consolidated financial statements for volunteer services since they are not susceptible to objective measurement or valuation; however, a number of volunteers donated significant amounts of their time performing services that would otherwise be performed by paid employees.

The Foundation also leases space from the University. A formal lease agreement was entered into during 2020, which requires an annual payment of $15,000 and expires in June 2025.

### Note 8. Net Assets with Donor Restrictions

Net assets included in the net assets with donor restrictions classification have been received from donors that have restricted the use of the funds for a specific purpose and/or future period. Net assets with donor restrictions at December 31, 2022 and 2021 are restricted for the following purposes or periods.

| | **2022** | 2021 |
|---|---|---|
| Subject to Expenditure for Specified Purpose | | |
| Scholarships | **$ 16,313,899** | $ 12,441,885 |
| Subject to Passage of Time | | |
| Pledges receivable | **6,908,954** | 3,976,824 |
| Endowments | | |
| Unappropriated endowment investment earnings | **13,959,999** | 20,290,755 |
| Original donor-restricted gift amounts to be maintained in perpetuity | **19,358,471** | 16,296,489 |
| **Total endowments** | **33,318,470** | 36,587,244 |
| **Total net assets with donor restrictions** | **$ 56,541,323** | $ 53,005,953 |

## Note 9. Endowment

In August 2008, accounting standards provided guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. In 2008, the Commonwealth of Virginia adopted UPMIFA.

The Foundation's endowment consists of approximately 220 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the 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 (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. The duration and preservation of the fund;
2. The purposes of the Foundation and the donor-restricted endowment fund;
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 investment policies of the Foundation.

**Note 9. Endowment (Continued)**

As of December 31, 2022, the endowment net asset composition by type of fund was as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Donor-restricted funds | $ - | $ 33,318,470 | $ 33,318,470 |
| Board-designated funds | 34,895,240 | - | 34,895,240 |
| **Total funds** | **$ 34,895,240** | **$ 33,318,470** | **$ 68,213,710** |

Changes in endowment net assets consisted of the following:

| | 2022 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets, beginning of year | $ 44,906,109 | $ 36,587,244 | $ 81,493,353 |
| Investment income | 661,124 | 515,728 | 1,176,852 |
| Net depreciation (unrealized and realized) | (7,056,109) | (5,805,149) | (12,861,258) |
| Contributions | - | 2,949,987 | 2,949,987 |
| Distributions | (2,460,063) | (7,947) | (2,468,010) |
| Administrative fees | (499,315) | (413,531) | (912,846) |
| Appropriation of endowment assets for expenditure | (656,506) | (507,862) | (1,164,368) |
| **Endowment net assets, end of year** | **$ 34,895,240** | **$ 33,318,470** | **$ 68,213,710** |

As of December 31, 2021, the endowment net asset composition by type of fund was as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Donor-restricted funds | $ - | $ 36,587,244 | $ 36,587,244 |
| Board-designated funds | 44,906,109 | - | 44,906,109 |
| **Total funds** | $ 44,906,109 | $ 36,587,244 | $ 81,493,353 |

**Note 9. Endowment (Continued)**

Changes in endowment net assets consisted of the following:

| | 2021 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets, beginning of year | $ 4,745,460 | $ 29,205,255 | $ 33,950,715 |
| Investment loss | (58,908) | (62,298) | (121,206) |
| Net appreciation (unrealized and realized) | 5,889,661 | 5,478,594 | 11,368,255 |
| Contributions | 1,992 | 2,831,301 | 2,833,293 |
| Board designations | 35,000,000 | - | 35,000,000 |
| Distributions | (3,938) | (8,811) | (12,749) |
| Administrative fees | (411,927) | (442,783) | (854,710) |
| Appropriation of endowment assets for expenditure | (256,231) | (414,014) | (670,245) |
| **Endowment net assets, end of year** | $ 44,906,109 | $ 36,587,244 | $ 81,493,353 |

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity as well as Board-designated funds. Under the investment policy approved by the Board, the endowment assets are invested in a manner to provide a real rate of return over inflation sufficient to support in perpetuity the mission of the Foundation. The Board established an investment committee to carry out this objective and with guidance and recommendations from their investment consultant. The Board makes decisions regarding the appropriate asset allocation.

The Foundation has a spending policy of appropriating for distribution each year 4% of the average value of each of its endowment funds for the three years prior to the year in which the budget is being developed for use in the following fiscal year. In establishing this policy, the Foundation considered the long-term expected return on its endowment, including those endowment funds deemed to be underwater, each year. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. The Foundation has interpreted UPMIFA to permit spending from underwater endowment funds in accordance with prudent measures required under law. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. Funds with original gift values of $3,956,498, fair values of $3,545,370 and deficiencies of $411,128 were reported in net assets with donor restrictions at December 31, 2022. Funds with original gift values of $1,540, fair values of $1,250, and deficiencies of $290 were reported in net assets with donor restrictions at December 31, 2021.

**Note 10. Fair Value Measurements**

FASB ASC 820-10 clarifies the definition of fair value for financial reporting and establishes a three-tier hierarchy as a framework for measuring fair value. Fair value is the price to sell an asset or transfer a liability between market participants as of the measurement date. The three levels of the fair value hierarchy under this standard are as follows:

- **Level 1 –** Inputs are quoted prices in active markets for identical instruments.
- **Level 2 –** Inputs are observable inputs other than Level 1 inputs. Level 2 inputs include quoted prices in active markets for similar instruments, quoted prices in less active or inactive markets for identical or similar instruments, and model-derived valuations in which all significant inputs are observable in active markets or can be derived from or corroborated with observable market data.
- **Level 3 –** Inputs are unobservable inputs for which little or no market data exists. Level 3 inputs require an entity to develop its own assumptions, such as valuations derived from techniques in which one or more significant value drivers are unobservable.

FASB ASC 820-10 requires the reporting entity to give 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) when measuring fair value. The Foundation classifies financial assets and liabilities in their entirety based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

**Note 10. Fair Value Measurements (Continued)**

The following tables present the financial instruments measured at fair value on a recurring basis as of December 31, 2022 and 2021, by caption on the consolidated statements of financial position by the valuation hierarchy defined above:

| | 2022 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Fair Value Total** |
| Investments (at fair value) | | | | |
| Cash held for investment | **$ 60,640** | **$ -** | **$ -** | **60,640** |
| Money market funds | **10,639,329** | **-** | **-** | **10,639,329** |
| Stocks and mutual funds | **63,036,768** | **-** | **-** | **63,036,768** |
| | **73,736,737** | **-** | **-** | **73,736,737** |
| Charitable remainder unitrusts | **-** | **-** | **372,350** | **372,350** |
| Promises to give, net | **-** | **-** | **6,908,954** | **6,908,954** |
| Split-interest agreement asset | **-** | **-** | **1,440** | **1,440** |
| | **$ 73,736,737** | **$ -** | **$ 7,282,744** | **81,019,481** |
| Investments measured at net asset value (a): | | | | |
| Investments in private investment companies | | | | **9,121,290** |
| **Total fair value** | | | | **$ 90,140,771** |

| | 2021 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value Total |
| Investments (at fair value) | | | | |
| Cash held for investment | $ 84,477,245 | $ - | $ - | 84,477,245 |
| Money market funds | 106,869 | - | - | 106,869 |
| Stocks and mutual funds | 149,566 | - | - | 149,566 |
| | 84,733,680 | - | - | 84,733,680 |
| Charitable remainder unitrusts | - | - | 231,246 | 231,246 |
| Promises to give, net | - | - | 4,002,188 | 4,002,188 |
| Split-interest agreement liability | - | - | (18,487) | (18,487) |
| | $ 84,733,680 | $ - | $ 4,214,947 | 88,948,627 |
| Investments measured at net asset value (a): | | | | |
| Investments in private investment companies | | | | 99,450 |
| **Total fair value** | | | | $ 89,048,077 |

(a) In accordance with FASB ASC 820, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

**Note 10. Fair Value Measurements (Continued)**

The Foundation had the majority of their funds invested in The Commonfund for Nonprofit Organizations (Commonfund). Commonfund is a tax exempt membership corporation that operates the Commonfund Multi-Strategy Equity Fund and the Commonfund Multi-Strategy Bond Fund as part of a pool of endowment funds for the exclusive benefit of educational institutions eligible for membership in Commonfund. The Commonfund consisted of funds deposited with Commonfund by participating client institutions for investment in the Commonfund, commingled for investment purposes, which are invested in accordance with the investment policies of the Commonfund and the Rules of Commonfund. The Commonfund used the net asset value as a practical expedient to determine the fair value of all investments which a) do not have a readily determinable fair value and b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principle of an investment company. The Investment Manager of the Commonfund reserved the right to adjust the reported net asset value if it is deemed to be not reflective of fair value. On December 31, 2021, the Commonfund was liquidated for $84,477,245 and the funds were transferred to a holding account at Bank of America before using the full funds to purchase securities consisting of money market funds, stocks, and mutual funds in January 2022.

The Foundation's Level 1 securities consist of money market funds, stocks, and mutual funds for which there are quoted market prices in active markets.

Level 3 consists of charitable remainder unitrusts, split-interest agreements, and promises to give valued at present value. The fair value of certain investments in the underlying entities, which may include private placements and other securities for which values are not readily available, are determined in good faith by the investment advisors of the respective entities and may not reflect amounts that could be realized upon immediate sale, nor amounts that may be ultimately realized. These estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments, and these differences could be material. Net asset valuations are provided daily, monthly, or quarterly by these entities. Appreciation of investments in these entities is net of all fee allocations to the investment advisors. Promises to give are reported at net realizable value if at the time the promise is made, payment is expected to be received in one year or less. Promises to give that are expected to be collected in more than one year are reported at fair value which is calculated as the present value of the expected cash flows to be received.

Charitable remainder trusts and split-interest agreements are reported at fair value at the time the Foundation has the unconditional right to receive benefits under the agreements and are adjusted annually based on the present value of the expected future obligations factoring in the applicable discount rate and actuarial mortality tables.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes the 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 estimate of fair value at the reporting date.

**Note 10. Fair Value Measurements (Continued)**

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2022 and 2021:

| | 2022 | | | |
|---|---|---|---|---|
| | **Charitable Remainder Unitrusts** | **Promises to Give** | **Split-Interest Agreement Asset (Liability)** | **Total** |
| Fair value, January 1, 2022 | **$ 231,246** | **$ 4,002,188** | **$ (18,487)** | **$ 4,214,947** |
| New contributions | **-** | **4,222,048** | **-** | **4,222,048** |
| Distributions | **-** | **-** | **26,425** | **26,425** |
| Reserve for split-interest | **141,104** | **-** | **(6,498)** | **134,606** |
| Payment of promises to give | **-** | **(949,481)** | **-** | **(949,481)** |
| Write-off of promises to give | **-** | **(365,801)** | **-** | **(365,801)** |
| **Fair value, December 31, 2022** | **$ 372,350** | **$ 6,908,954** | **$ 1,440** | **$ 7,282,744** |

| | 2021 | | | |
|---|---|---|---|---|
| | Charitable Remainder Unitrusts | Promises to Give | Split-Interest Agreement Liability | Total |
| Fair value, January 1, 2021 | $ 225,489 | $ 4,527,372 | $ (38,320) | $ 4,714,541 |
| New contributions | - | 746,316 | - | 746,316 |
| Distributions | - | - | 26,425 | 26,425 |
| Reserve for split-interest | 5,757 | - | (6,592) | (835) |
| Payment of promises to give | - | (1,179,265) | - | (1,179,265) |
| Write-off of promises to give | - | (92,235) | - | (92,235) |
| Fair value, December 31, 2021 | $ 231,246 | $ 4,002,188 | $ (18,487) | $ 4,214,947 |

During the year ended June 30, 2022, the Foundation invested in the Blackstone Real Estate Income Trust, Inc., Hawkes Bay Investors (Cayman), Ltd., Sculptor Access Ltd., Summit Partners Sustainable Opportunities L/S Fund Limited., and Trend Macro Offshore Ltd.. These funds are investments in investment vehicles that calculate net asset value. The fair value measurement of these funds at June 30, 2023 is $10,205,776. There are no unfunded commitments to the funds as of December 31, 2022.

The Blackstone Real Estate Income Trust, Inc. seeks to invest in stabilized commercial real estate properties diversified by sector with a focus on providing current income. The redemption frequency of the fund is monthly. There is an overall limit on redemptions of 2% of the net asset value of the fund per month and 5% of the net asset value per calendar quarter.

## Note 10. Fair Value Measurements (Continued)

The Hawkes Bay Investors (Cayman), Ltd. fund seeks long-term capital appreciation through investment in primarily equity and equity-related securities of companies that derive a major portion of profits or anticipated profits from the health care sector and related sectors worldwide. The redemption frequency of the fund is quarterly.

The Sculptor Access Ltd. fund seeks to exploit pricing inefficiencies in equity and debt securities. The redemption frequency of the fund is quarterly.

The Summit Sustainable Opportunities L/S Fund Limited's primary objective is to achieve capital appreciation and deliver strong risk-adjusted returns over a market cycle. The fund looks to achieve these objectives by establishing long and short investments in global equity securities and other equity-related instruments of public companies. The funds seeks to make investments based on individual themes and focus on companies that offer disruptive, market-driven solutions to global stability challenges. The redemption frequency of the fund is quarterly.

Trend Macro Offshore Ltd.'s objective is to produce consistent, absolute returns on capital by pursuing a fundamental global macro strategy. In general, they seek to achieve this investment objective by taking both long and short positions in a variety of fixed income instruments and derivatives, foreign currencies, foreign exchange forwards and foreign exchange derivatives, as well as in various derivative products or securities linked to credit and equity indices. The redemption frequency of the fund is monthly.

## Note 11. Operating Leases

The Foundation entered into a lease agreement with the University for office space in July 2020. The lease agreement expires in June 2025 and requires annual payments of $15,000.

Additionally, the Foundation began to lease a vehicle in September 2022 under an operating lease agreement requiring monthly payments of $2,488. The lease agreement expires in August 2025.

Operating lease right-of-use assets and lease liabilities as of December 31, 2022 were as follows:

| | |
|---|---|
| Right-of-use assets: | |
| Operating lease cost | $ 105,832 |
| Lease liabilities: | |
| Current operating lease cost | $ 44,000 |
| Noncurrent operating lease cost | 59,746 |
| **Total operating lease liability** | $ 103,746 |

Rent expense incurred in connection with these leases was $42,382 and $15,000 for the years ended December 31, 2022 and 2021, respectively.

**Note 11. Operating Leases**

The aggregate future lease payments below summarize the remaining future undiscounted cash flows for operating leases as of December 31, 2022, and a reconciliation to operating lease liabilities reported on the consolidated balance sheet:

| Year | Amount |
|---|---|
| 2023 | $ 44,859 |
| 2024 | 44,859 |
| 2025 | 15,332 |
| Total undiscounted cash flows | 105,050 |
| Less: present value discount | (1,304) |
| **Total lease liability** | $ 103,746 |

Average operating lease terms and discount rate at December 31, 2022 were as follows:

| | |
|---|---|
| Weighted average remaining lease term (years) | 2.56 |
| Weighted average discount rate: | 1.04% |

The following summarizes cash paid for operating lease liabilities and other non-cash information as of December 31, 2022:

| | |
|---|---|
| Cash paid for amounts included in the measurement of operating leases | $ 43,484 |
| Right-of-use assets obtained in exchange for operating lease obligations | 148,033 |