



STUDENT LOAN GUARANTEE FOUNDATION OF ARKANSAS, INC.

**Financial Statements
September 30, 2022 and 2021**

(With Independent Auditor's Report Thereon)

Student Loan Guarantee Foundation of Arkansas, Inc.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Student Loan Guarantee Foundation of Arkansas, Inc.
North Little Rock, Arkansas

Opinion

We have audited the financial statements of **Student Loan Guarantee Foundation of Arkansas, Inc.** (the Foundation), which comprise the statements of financial position as of September 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 September 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 (U.S. GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (U.S. 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 U.S. GAAP, 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 any 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 U.S. 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 U.S. 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.



Little Rock, Arkansas
July 14, 2023

Financial Statements

Student Loan Guarantee Foundation of Arkansas, Inc.

Statements of Financial Position September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 1,237,589	\$ 5,515,681
Investments	3,534,741	-
Other receivables	8,615	5,000
Prepaid expenses	9,685	9,679
Property and equipment, net	<u>968</u>	<u>1,936</u>
TOTAL ASSETS	<u>\$ 4,791,598</u>	<u>\$ 5,532,296</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 2,385	\$ 2,108
Accrued payroll and related liabilities	<u>27,069</u>	<u>26,474</u>
TOTAL LIABILITIES	29,454	28,582
NET ASSETS	<u>4,762,144</u>	<u>5,503,714</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,791,598</u>	<u>\$ 5,532,296</u>

See accompanying notes to financial statements.

Student Loan Guarantee Foundation of Arkansas, Inc.

Statements of Activities Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
INVESTMENT (LOSS) INCOME	<u>\$ (210,557)</u>	<u>\$ 1,265</u>
EXPENSES		
Program services	426,561	339,539
Supporting services	<u>104,452</u>	<u>102,759</u>
TOTAL EXPENSES	<u>531,013</u>	<u>442,298</u>
DECREASE IN NET ASSETS	(741,570)	(441,033)
NET ASSETS, BEGINNING OF YEAR	<u>5,503,714</u>	<u>5,944,747</u>
NET ASSETS, END OF YEAR	<u><u>\$ 4,762,144</u></u>	<u><u>\$ 5,503,714</u></u>

See accompanying notes to financial statements.

Student Loan Guarantee Foundation of Arkansas, Inc.

Statement of Functional Expenses Year Ended September 30, 2022

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
Salaries and other compensation	\$ 124,162	\$ 53,212	\$ 177,374
Employee benefits and payroll tax expense	18,969	8,130	27,099
Professional fees and services	59,534	25,515	85,049
Information technology	1,411	604	2,015
Office expenses	6,642	2,846	9,488
Depreciation and amortization	677	291	968
Occupancy expense	16,682	7,150	23,832
Travel expense	1,355	581	1,936
Conferences, conventions and meetings expense	1,858	796	2,654
Insurance expense	12,347	5,291	17,638
Scholarships expense	182,840	-	182,840
Other expense	84	36	120
	<u>\$ 426,561</u>	<u>\$ 104,452</u>	<u>\$ 531,013</u>

See accompanying notes to financial statements.

Student Loan Guarantee Foundation of Arkansas, Inc.

Statement of Functional Expenses Year Ended September 30, 2021

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
Salaries and other compensation	\$ 120,723	\$ 51,739	\$ 172,462
Employee benefits and payroll tax expense	18,864	8,084	26,948
Professional fees and services	61,713	26,449	88,162
Information technology	1,355	580	1,935
Office expenses	4,974	2,132	7,106
Depreciation and amortization	678	291	969
Occupancy expense	16,327	6,997	23,324
Travel expense	1,468	617	2,085
Conferences, conventions and meetings expense	1,809	775	2,584
Insurance expense	11,709	5,018	16,727
Scholarships expense	99,740	-	99,740
Other expense	179	77	256
	<u>\$ 339,539</u>	<u>\$ 102,759</u>	<u>\$ 442,298</u>

See accompanying notes to financial statements.

Student Loan Guarantee Foundation of Arkansas, Inc.

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

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (741,570)	\$ (441,033)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:		
Depreciation and amortization	968	969
Net depreciation in fair value of investments	234,160	-
Changes in operating assets and liabilities:		
Other receivables	(3,615)	(5,000)
Prepaid expenses	(6)	(1,806)
Accounts payable	277	1,881
Accrued payroll and other liabilities	595	(779)
Net Cash Used by Operating Activities	(509,191)	(445,768)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,768,901)	-
Net Cash Used by Investing Activities	(3,768,901)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,278,092)	(445,768)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,515,681	5,961,449
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,237,589	\$ 5,515,681

See accompanying notes to financial statements.

Student Loan Guarantee Foundation of Arkansas, Inc.

Notes to Financial Statements September 30, 2022 and 2021

NOTE 1: NATURE OF ACTIVITIES

The Student Loan Guarantee Foundation of Arkansas, Inc. (the Foundation) was established in 1966 for the primary purpose of serving as the state designated guarantor for the Federal Family Education Loan Program (FFELP) and providing other higher education services to Arkansas students and their families, as well as the institutions that serve them.

With the passage of the Healthcare and Education Reconciliation Act of 2010 (the Act), the Foundation's authority to guarantee new loans under FFELP ended, and beginning July 1, 2010, all new student loans were issued through Direct Loan Program created under the Act, which is administered by the United States Department of Education (ED). As a result, the Foundation discontinued all services related to the issuance of loan guarantees. Effective September 30, 2014, the Foundation transitioned substantially all activities performed with respect to the then outstanding loan portfolio to Great Lakes Higher Education Guaranty Corporation (Great Lakes), with the approval of the Secretary of the Department of Education.

During the year ended September 30 2015, management of the Foundation developed and began implementation of "GuidEd Solutions," a program to provide postsecondary institutions with affordable and customized education services. The Foundation offered institutions the flexibility to utilize staff and resources to focus on student success. Services provided to colleges and universities included student debt management, pre-repayment counseling, gainful employment assistance, inbound and outbound communications to assist students, education-based surveys, a student notification system and various other administrative services. As of June 30, 2019, all GuidEd Solutions services were terminated.

During the year ended September 30, 2019, the Foundation originated the program "Scholarships Leading to Graduation for Arkansans." During the year ended September 30, 2020, the Foundation selected the five largest public post-secondary institutions (institutions) in Arkansas to participate in the pilot program to fund scholarships to students in need of financial aid to complete their course of study. Students were to be selected by the respective institutions, with each institution selecting six students, each of whom was to receive a maximum of \$5,000 per semester in order to complete their degree. At September 30, 2022 and 2021, respectively, there were twenty-two and ten institutions participating in the pilot program. The Foundation intends to encourage the institutions to increase the distributions of scholarship funds.

The management, affairs and general administration of the Foundation are vested in a five member Board of Directors.

Student Loan Guarantee Foundation of Arkansas, Inc.

Notes to Financial Statements September 30, 2022 and 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Foundation reports information regarding its financial position and activities in accordance with generally accepted accounting principles, which require the distinction between net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. Net assets with donor restrictions are resources that are subject to donor imposed limitations on how or when such resources may be used. All of the Foundation's net assets are without donor restriction at September 30, 2022 and 2021.

Cash and Cash Equivalents

For purposes of presentation in the statements of cash flows, the Foundation considers all short-term investment funds and highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Cash and cash equivalents include balances in demand deposit accounts maintained with financial institutions and money market mutual funds held in brokerage accounts maintained with investment banking firms. In the event of a bank or investment banking firm failure, the excess of the balance over applicable insurance limits may not be recoverable. The Foundation has not experienced any such losses in regards to these accounts and does not anticipate such losses to occur. At September 30, 2022 and 2021, cash and cash equivalents balances totaled \$1,243,354 and \$328,108, of which \$25,423 and \$0 was uninsured at September 30, 2022 and 2021, respectively.

Investments

The Foundation records purchases of investment securities at cost on the transaction trade date. Thereafter, securities are reported at fair value on the statements of financial position. Changes in fair values are recorded in the period in which they occur. 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 income or loss presented on the statements of activities includes dividends and interest, as well as realized and unrealized gains and losses, and is net of external investment expenses.

Property and Equipment

The Foundation's furniture, equipment and software are recorded at historical cost. Major improvements are capitalized, while normal maintenance and repairs are expensed in the period incurred. Depreciation or amortization (as applicable) is computed using the straight-line method over the estimated useful lives of the assets which range from three to ten years.

Property and equipment at September 30, 2022 and 2021, is presented on the statements of financial position, net of accumulated depreciation and amortization totaling \$68,709 and \$67,741, respectively.

Student Loan Guarantee Foundation of Arkansas, Inc.

Notes to Financial Statements September 30, 2022 and 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Scholarships

Institutions participating in the Foundation's scholarship program identify and select eligible students to receive scholarships. Scholarships are recorded as expenses in the statement of activities at the same time they are paid by the Foundation.

Income Taxes

The Foundation is classified as a private foundation under Section 509(a) of the Internal Revenue Code and is generally exempt from federal income taxation under Section 501(c)(3). Accounting standards require management of 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. Management of the Foundation has analyzed the tax positions taken and has concluded that as of September 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.

Functional Expenses

The Foundation allocates its expenses on a functional basis between its program and supporting services. Expenses that can be identified with specific program or supporting services are recorded directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated to program and supporting services based on estimates of time worked.

Expenses associated with certain activities and functions necessary for the support of programs provided by the Foundation are considered supporting services expenses. Supporting services include costs associated with general and administrative functions of the Foundation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 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 October 1, 2022. Management of the Foundation has not yet determined the significance of the impact of implementation of this standard or any related amendments.

Student Loan Guarantee Foundation of Arkansas, Inc.

Notes to Financial Statements September 30, 2022 and 2021

NOTE 3: FAIR VALUE MEASUREMENTS

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). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access at the measurement date.
- 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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2022 and 2021:

Corporate debt obligations are valued using industry accepted pricing models, such as the present value of the expected stream of cash flows, adjusted for credit rating, credit loss assumptions and other factors.

U.S. treasury securities are valued using pricing models maximizing the use of observable inputs for similar securities.

Certificates of deposit are valued using pricing models such as the present value of the stream of expected cash flows adjusted for interest rates and other factors.

Common stock are valued at the closing price reported on the active market in which the individual securities are traded.

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

Preferred stock are valued using industry accepted pricing models, such as the present value of the expected stream of cash flows and dividend growth.

Student Loan Guarantee Foundation of Arkansas, Inc.

Notes to Financial Statements September 30, 2022 and 2021

NOTE 3: FAIR VALUE MEASUREMENTS (Continued)

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value. Classification within the fair value hierarchy table is based on the lowest level of any input that is significant to the fair value measurement:

	September 30, 2022			
	Fair Value	Level 1	Level 2	Level 3
Corporate debt obligations				
A-	\$ 385,625	\$ -	\$ 385,625	\$ -
BBB+	380,590	-	380,590	-
BBB	286,551	-	286,551	-
BBB-	144,846	-	144,846	-
Total corporate debt obligations	1,197,612	-	1,197,612	-
U.S. treasury securities	1,028,837	-	1,028,837	-
Certificates of deposit	243,731	-	243,731	-
Common stock	385,211	385,211	-	-
Exchange-traded funds	28,464	28,464	-	-
Preferred stock	650,886	-	650,886	-
	<u>\$ 3,534,741</u>	<u>\$ 413,675</u>	<u>\$ 3,121,066</u>	<u>\$ -</u>

NOTE 4: RETIREMENT PLANS

For the benefit of its employees, the Foundation maintains the Student Loan Guarantee Foundation of Arkansas Defined Contribution Retirement Plan (the Plan). The Plan is a qualified money purchase pension plan, as authorized under Internal Revenue Code Section 401(a). The Plan covers substantially all employees who are at least twenty-one years of age and who have completed a minimum of one year of employment with the Foundation. The Foundation is required to contribute eight percent of each participant's compensation. During the years ended September 30, 2022 and 2021, the Foundation's retirement expense totaled approximately \$12,600 and \$12,200, respectively. In addition, the Foundation also sponsors a 403(b) plan to which employees may make salary deferrals.

NOTE 5: LEASE COMMITMENTS

The Foundation leases office space under a noncancelable operating lease with an original lease term of greater than one year. Approximate future annual minimum lease payments under such lease at September 30, 2022 are \$18,000 for the year ending 2023. Total lease expense for office space was approximately \$24,000 for the years ended September 30, 2022 and 2021.

Student Loan Guarantee Foundation of Arkansas, Inc.

Notes to Financial Statements September 30, 2022 and 2021

NOTE 6: COMMITMENTS, CONTINGENCIES AND UNCERTAINTIES

Effective March 4, 2003, the Foundation's Board of Directors established the Student Loan Guarantee Foundation of Arkansas Catastrophic Severance Pay Plan, which was amended and restated July 24, 2012. This plan is an unfunded welfare benefit plan under the Employee Retirement Income Security Act of 1974, as amended, and is designed to provide eligible employees with severance pay in the event that his or her employment is involuntarily terminated as a result of a "catastrophic event," as defined in the plan. As of September 30, 2022 and 2021, no events meeting the definition of a catastrophic event had occurred, and there were no amounts payable under the plan.

NOTE 7: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Foundation monitors its liquidity so that it is able to meet its operating needs and contractual commitments. 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	\$ 1,237,589	\$ 5,515,681
Investments at fair value	3,534,741	-
Other receivables	<u>8,615</u>	<u>5,000</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,780,945</u>	<u>\$ 5,520,681</u>

NOTE 8: MARKET UNCERTAINTIES

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of the COVID-19 pandemic on the Foundation and its financial results will depend on future developments, including the duration of the outbreak and related impact of 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 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.

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 14, 2023, the date the financial statements were available to be issued.