

Missouri State University Foundation

Independent Auditor's Report and Financial Statements

June 30, 2019

Independent Auditor's Report

Board of Trustees
Missouri State University Foundation
Springfield, Missouri

We have audited the accompanying financial statements of Missouri State University Foundation, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Missouri State University Foundation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 2* to the financial statements, in 2019, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the June 30, 2018, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 28, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BKD, LLP

Springfield, Missouri
December 2, 2019

Missouri State University Foundation
Statement of Financial Position
June 30, 2019 (with Comparative Totals for June 30, 2018)

Assets

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 11,722,498	\$ 19,764,910
Accounts receivable, net	6,069	5,881
Prepaid expenses	2,401,542	1,662,584
Investments	108,748,950	99,345,966
Investments held in trust	1,946,074	744,635
Investments held for resale	143,126	123,126
Pledges receivable, net	18,733,665	21,296,438
Cash value of life insurance	424,054	467,307
Construction in progress	40,987	362,044
Real estate and equipment, at cost	4,422,892	3,651,102
Accumulated depreciation	<u>(2,798,122)</u>	<u>(2,717,514)</u>
Total assets	<u>\$ 145,791,735</u>	<u>\$ 144,706,479</u>

Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 1,147,491	\$ 3,301,916
Deferred revenue	47,877	21,547
Annuity obligations	508,060	140,320
Funds managed for Missouri State University	<u>199,762</u>	<u>199,762</u>
Total liabilities	<u>1,903,190</u>	<u>3,663,545</u>

Net Assets

Without donor restrictions	<u>10,208,985</u>	<u>10,588,461</u>
With donor restrictions		
Purpose restrictions or time-restricted for future periods	72,981,433	72,260,927
Perpetual in nature	<u>60,698,127</u>	<u>58,193,546</u>
Net assets with donor restrictions	<u>133,679,560</u>	<u>130,454,473</u>
Total net assets	<u>143,888,545</u>	<u>141,042,934</u>
Total liabilities and net assets	<u>\$ 145,791,735</u>	<u>\$ 144,706,479</u>

Missouri State University Foundation
Statement of Activities
Year Ended June 30, 2019 (with Comparative Totals for the
Year Ended June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions - Purpose or Time- Restricted	2019 With Donor Restrictions - Perpetual in Nature	Total With Donor Restrictions	Total	2018
Revenues, Gains and Other Support						
Contributions	\$ 382,551	\$ 14,930,535	\$ 2,500,105	\$ 17,430,640	\$ 17,813,191	\$ 21,885,029
Investment return, net	1,980,851	2,847,166	-	2,847,166	4,828,017	6,622,275
Gain on assets held in trust	255,583	-	3,569	3,569	259,152	33,487
Life insurance cash value decrease	(4,454)	(38,798)	-	(38,798)	(43,252)	(11,637)
Rental income	670,618	-	-	-	670,618	651,643
Other income	26,028	2,368,821	34,485	2,403,306	2,429,334	901,490
Personnel paid by affiliate	3,008,611	-	-	-	3,008,611	2,975,375
Net assets released from restrictions	17,781,890	(17,781,890)	-	(17,781,890)	-	-
Total revenues, gains and other support	<u>24,101,678</u>	<u>2,325,834</u>	<u>2,538,159</u>	<u>4,863,993</u>	<u>28,965,671</u>	<u>33,057,662</u>
Expenses and Losses						
Instruction and academic program support	5,087,922	-	-	-	5,087,922	7,075,408
Student services	3,950,984	-	-	-	3,950,984	3,496,848
Institutional support	4,888,888	-	-	-	4,888,888	5,031,568
Scholarships	2,422,492	-	-	-	2,422,492	1,878,657
Rental expenses	611,787	-	-	-	611,787	522,868
Capital projects - Missouri State University	7,492,562	-	-	-	7,492,562	4,645,164
Total expenses	<u>24,454,635</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,454,635</u>	<u>22,650,513</u>
Actuarial loss on trust and annuity obligations	26,519	-	5,877	5,877	32,396	36,345
Provision for uncollectible pledges	-	1,605,328	27,701	1,633,029	1,633,029	12,344,954
Total expenses and losses	<u>24,481,154</u>	<u>1,605,328</u>	<u>33,578</u>	<u>1,638,906</u>	<u>26,120,060</u>	<u>35,031,812</u>
Change in Net Assets	<u>(379,476)</u>	<u>720,506</u>	<u>2,504,581</u>	<u>3,225,087</u>	<u>2,845,611</u>	<u>(1,974,150)</u>
Net Assets, Beginning of Year	<u>10,588,461</u>	<u>72,260,927</u>	<u>58,193,546</u>	<u>130,454,473</u>	<u>141,042,934</u>	<u>143,017,084</u>
Net Assets, End of Year	<u>\$ 10,208,985</u>	<u>\$ 72,981,433</u>	<u>\$ 60,698,127</u>	<u>\$ 133,679,560</u>	<u>\$ 143,888,545</u>	<u>\$ 141,042,934</u>

Missouri State University Foundation
Statement of Cash Flows
Year Ended June 30, 2019 (with Comparative Totals for the
Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 2,845,611	\$ (1,974,150)
Items not requiring (providing) operating activities cash flows		
Depreciation	113,584	90,451
Reduction in value of real estate held for resale	-	174,371
Losses on real estate held for resale	-	82,129
Net realized and unrealized gains on investments	(1,804,737)	(4,358,945)
Net realized and unrealized gains on investments held in trust	(265,166)	(33,487)
Actuarial loss on trust and annuity obligations	32,396	36,345
Noncash gifts	(1,551,209)	(1,513,901)
Gain (loss) on sale of securities	(1,006)	1,720
Changes in		
Accounts receivable	(188)	(206)
Prepaid expenses	(738,956)	(523,670)
Pledges receivable	2,562,773	11,382,299
Accounts payable and accrued expenses	(2,154,425)	501,929
Pledges payable	-	(103,662)
Deferred revenue	26,330	21,547
Annuity obligations	335,344	(61,632)
Contributions restricted for long-term investment	(1,996,855)	(4,386,461)
Other income restricted for long-term investment	(34,485)	(35,399)
Net cash used in operating activities	<u>(2,630,989)</u>	<u>(700,722)</u>
Investing Activities		
Proceeds from sale of investments	94,855,907	42,469,539
Purchase of investments	(102,454,154)	(39,403,782)
Purchase of investments held in trust	(1,000,000)	-
Proceeds from sale of investments held in trust	63,727	33,093
Purchases of real estate and equipment	(483,710)	-
Construction in progress acquisitions	-	(207,239)
Decrease in cash value of life insurance	43,253	11,638
Net cash provided by (used in) investing activities	<u>(8,974,977)</u>	<u>2,903,249</u>
Financing Activities		
Proceeds from sale of securities restricted for investment in endowment and capital	1,532,214	1,403,181
Proceeds from contributions restricted for investment in endowment	1,996,855	4,386,461
Other income restricted for investment	34,485	35,399
Net cash provided by financing activities	<u>3,563,554</u>	<u>5,825,041</u>
Increase (Decrease) in Cash and Cash Equivalents	(8,042,412)	8,027,568
Cash and Cash Equivalents, Beginning of Year	<u>19,764,910</u>	<u>11,737,342</u>
Cash and Cash Equivalents, End of Year	<u>\$ 11,722,498</u>	<u>\$ 19,764,910</u>

Missouri State University Foundation

Notes to Financial Statements

June 30, 2019

Note 1: Summary of Significant Accounting Principles

Purpose of the Foundation

The purpose of the Missouri State University Foundation (the "Foundation"), previously Southwest Missouri State University Foundation, is to be the legal vehicle to receive, manage and distribute all private gifts, with or without donor restrictions, for the benefit of Missouri State University (the "University"), or its successors, or any institution of higher learning with which it may merge. The Foundation provides funds from private sources to a variety of University departments and programs.

The Board of Trustees, which governs the Foundation, is separate and distinct from the Board of Governors, the governing body of the University.

The Foundation's primary source of revenue is from contributions and their investment return.

Description of Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2019, cash equivalents consisted primarily of money market accounts with brokers.

At June 30, 2019, the Foundation's cash accounts exceeded federally insured limits by approximately \$20,850.

Contributions and Pledges Receivable

Gifts of cash and other assets received are either with or without donor stipulations placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts with or without donor restrictions.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Missouri State University Foundation

Notes to Financial Statements

June 30, 2019

Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Gifts of land, buildings, equipment and other long-lived assets are reported at estimated fair value as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions to net assets without donor restrictions are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional, with or without restriction, gifts depend on the Foundation overcoming a donor imposed barrier to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

In-Kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions of services, software licensing, books, livestock and equipment from various donors. It is the policy of the Foundation to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by the same amount. For the year ended June 30, 2019, \$4,295,784 was received in in-kind contributions.

Real Estate and Equipment

Buildings, improvements and equipment are recorded at cost, less accumulated depreciation and amortization. Annual depreciation is computed using the straight-line basis over the estimated life of each asset. At June 30, 2019, real estate and equipment includes building costs of \$3,513,203, land of \$180,167, tenant remodeling improvements of \$83,695 and equipment of \$645,828.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Real estate	15 - 40 years
Equipment	5 – 20 years

Valuation of Gifts of Property

Gifts of real and personal property are reported at their estimated fair value as of the date the property is received. Fair value is determined either by a staff member of the University with expertise in the valuation of the particular property, or by appropriate documentation furnished by the donor.

Missouri State University Foundation

Notes to Financial Statements

June 30, 2019

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2016.

Use of Estimates

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

Comparative Amounts

The financial statements include certain prior year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Functional expenses table (*Note 13*) presents the natural classification detail of expenses by function. Certain costs have been allocated among the program and support services categories based on various methods.

Reclassifications

Certain reclassifications have been made to the 2018 summarized information to conform to the 2019 financial statement presentation. These reclassifications had no effect on the change in net assets.

Missouri State University Foundation

Notes to Financial Statements

June 30, 2019

Note 2: Change in Accounting Principle

In 2019, the Foundation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Activities

- Investment income is shown net of external and direct internal investment expense. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Expenses are reported by both nature and function in one location.
- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the Statement of Financial Position.

This change had no impact on previously reported total change in net assets.

Note 3: Pooled Investments

Funds treated as endowment by the Foundation are managed as a pooled investment fund. This pool includes funds from the with or without donor restrictions net asset classes. The various subsidiary accounts purchase shares in the investment pool when additions are received. The investment pool is operated on a unit market basis. The following schedule summarizes data related to the investment pool for the year ended June 30, 2019:

Pooled investments at market value	\$ 86,290,846
Number of pool shares	364,129
Market value per pool share	\$ 237
Fiscal year return	4.87%
Interest and dividend earnings	\$ 2,079,422
Net gains	\$ 1,756,115

Missouri State University Foundation
Notes to Financial Statements
June 30, 2019

Note 4: Endowment

The Foundation’s endowment consists of approximately 1,057 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation’s governing body has interpreted the State of Missouri Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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 donor-restricted endowment funds is classified as net assets with donor restrictions – purpose or time-restricted for future periods until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The composition of net assets by type of endowment fund at June 30, 2019, was:

	Without Donor Restrictions	With Donor Restrictions - Purpose or Time-Restricted	With Donor Restrictions - Perpetual in Nature	Total
Donor-restricted endowment funds	\$ -	\$ 25,765,263	\$ 60,074,076	\$ 85,839,339
Board-designated endowment funds	3,262,579	-	-	3,262,579
Total endowment funds	\$ 3,262,579	\$ 25,765,263	\$ 60,074,076	\$ 89,101,918

Missouri State University Foundation
Notes to Financial Statements
June 30, 2019

Changes in endowment net assets for the year ended June 30, 2019, were:

	Without Donor Restrictions	With Donor Restrictions - Purpose or Time-Restricted	With Donor Restrictions - Perpetual in Nature	Total
Endowment net assets, beginning of year	\$ 3,213,267	\$ 26,158,615	\$ 57,567,186	\$ 86,939,068
Investment return, net				
Investment income	-	2,464,336	-	2,464,336
Net appreciation	19,053	1,672,300	-	1,691,353
Total investment return, net	19,053	4,136,636	-	4,155,689
Contributions	-	-	2,472,405	2,472,405
Other income	23,786	60,286	34,485	118,557
Appropriation of endowment assets for expenditure	-	(4,699,048)	-	(4,699,048)
Other additions	6,473	108,774	-	115,247
Endowment net assets, end of year	\$ 3,262,579	\$ 25,765,263	\$ 60,074,076	\$ 89,101,918

Underwater Endowments

The governing body of the Foundation has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of

- a) the original value of initial and subsequent gift amounts donated to the fund and
- b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

The Foundation has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

At June 30, 2019, funds with original gift value of \$1,948,514; fair value of \$1,884,497; and deficiency of \$64,017, were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The Foundation has a policy that does not permit spending from underwater endowment funds.

Missouri State University Foundation

Notes to Financial Statements

June 30, 2019

Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that exceed the endowment's financial requirement over time, while assuming a moderate level of investment risk. The Foundation expects its endowment funds to provide a rate of return of approximately 6.4 percent annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year 5.7 percent of its endowment fund's average fair value over the prior 36 months through the month end preceding the month in which expenditure is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. The Foundation expects the current spending policy to allow its endowment to grow at a rate approximating the inflationary rate over the long term. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 5: Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at the time of donation, if acquired by contribution) or fair value.

Investments in private equity funds, hedge funds and some mutual funds are recorded at net asset value (NAV), as a practical expedient.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Missouri State University Foundation
Notes to Financial Statements
June 30, 2019

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

The Foundation has significant investments in marketable securities, which are subject to price fluctuation. These instruments could potentially subject the Foundation to significant concentrations of market risk. This risk is controlled through a diversified portfolio and regular monitoring procedures.

Investments are summarized as follows at June 30, 2019:

Accrued income	\$ 235,967
Money market accounts	1,969,589
U.S. equity mutual funds	24,444,004
Non-U.S. equity mutual funds	28,530,950
Real estate funds	5,518,918
U.S. Treasury securities	34,916,233
Corporate bonds	6,891,879
Hedge funds	2,521,652
Private equity	3,716,258
Other	3,500
	<u>\$ 108,748,950</u>

During the year ended June 30, 2019, investment return consists of the following:

Investment income	\$ 3,030,269
Realized and unrealized gains on investments reported at fair value	2,079,605
Investment expenses	<u>(281,857)</u>
	<u>\$ 4,828,017</u>

Investments held in trust are deposited with The Northern Trust Company, Benjamin F. Edwards & Co., and Bank of America, N.A.

Investment expenses incurred for the year ended June 30, 2019, totaled \$281,857.

Missouri State University Foundation
Notes to Financial Statements
June 30, 2019

Alternative Investments

The fair value of alternative investments has been estimated using the net asset value per share of the investments. Additional information about these investments is described in *Note 12*. Alternative investments held at June 30, 2019, consist of the following:

	Fair Value	June 30, 2019 Unfunded Commitments	Redemption Notice Period
Hedge funds	\$ -	\$ -	45-75 days
Private equity funds	3,716,258	2,460,300	N/A

Note 6: Related Party Transactions

The Foundation received contributed personnel services from the University of \$3,008,611 for the year ended June 30, 2019. The contributed personnel services are based on costs incurred by the University. The Foundation receives administrative support outside of personnel services from the University without charge.

The University pays the Foundation for space occupied by various University departments within the Kenneth E. Meyer Alumni Center. Rental payments for the year ended June 30, 2019, were \$535,766 and are included in rental income. Accounts payable and accrued expenses include \$960,304 due to the University at June 30, 2019.

In 1982 the University's Board of Governors authorized the transfer of its endowment fund of \$199,762 to the Foundation for management purposes. This balance is shown on the Foundation's statement of financial position as funds managed for Missouri State University. All investment earnings from these funds have been recorded in the accounting records of the Foundation. All endowment additions since 1982, including gifts, student fees designated for endowment and other income, have been recorded in the Foundation accounting records.

Note 7: Other Assets

Investments Held for Resale

Investments held for resale consist of tangible personal property and publicly traded common stock which are carried at the fair value as of the date received. These investments totaled \$143,126 at June 30, 2019.

Missouri State University Foundation
Notes to Financial Statements
June 30, 2019

Note 8: Split-Interest Agreements, Gift Annuities and Charitable Remainder Trusts

The Foundation is one beneficiary of a perpetual split-interest trust which is held by others. The fair value of the Foundation's interest in the trust at June 30, 2019, is \$93,475. The income received by the Foundation from this trust was \$5,450 for this fiscal year. The Foundation is also the beneficiary of four charitable remainder trusts with a fair value at June 30, 2019, of \$1,852,599, which includes the addition of \$880,336 of a new charitable remainder trust in 2019.

The Foundation has entered into annuity agreements with various individuals whereby the annuitants have given certain assets to the Foundation on the condition that the Foundation pay stipulated amounts periodically to the annuitants during their lifetime. Any assets remaining upon the death of the annuitants become the property of the Foundation and available for its use, subject to the restrictions of the annuity agreement, if any. There was no revenue recognized by the Foundation under these agreements during the year ended June 30, 2019.

The annuity obligation at June 30, 2019, of \$508,060 was calculated over the terms of the agreements based on the rates for government securities with similar maturities.

Note 9: Pledges Receivable

Pledges receivable are a credit risk to the extent donors choose not to complete their pledge payments. Discount rates ranged from .97 percent to 3.30 percent. Pledges receivable consist of the following unconditional promises to give at June 30, 2019:

Due within one year	\$ 7,036,451
Due in one to five years	10,212,715
Due in more than five years	2,757,167
	20,006,333
 Less: Allowance for doubtful accounts	 404,455
Unamortized discount	868,213
	1,272,668
	\$ 18,733,665

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Pledges are included in the following net asset classification:

With donor restrictions - purpose restrictions or time-restricted for future periods	\$ 15,774,069
With donor restrictions - perpetual in nature	2,959,596
	\$ 18,733,665

Refer to *Note 15* for additional disclosures regarding significant concentrations and uncertainties within the pledge receivable balance at June 30, 2019.

Note 10: Leases

Noncancelable leases for space in the Kenneth E. Meyer Alumni Center expire in various years through 2025. Several of these leases contain renewal options for periods ranging from one to six years. Future minimum lease income at June 30, 2019, is as follows: 2020 – \$672,627; 2021 – \$136,179; 2022 – \$128,657; 2023 – \$82,682; 2024 – \$68,147; 2025 – \$68,147, for a total future lease income of \$1,156,439.

Note 11: Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2019, are restricted for the following purposes or periods:

Any purpose, time restricted	\$ 26,013
Instruction and academic program support	20,944,191
Student services	5,578,916
Institutional support	17,392,117
Scholarships	24,435,787
Broadcast services	4,604,409
	\$ 72,981,433

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Net assets with donor restrictions that are perpetual in nature at June 30, 2019, are restricted to investments in perpetuity, the revenue from which is expendable to support:

Instruction and academic program support	\$ 16,615,261
Student services	931,538
Institutional support	1,923,027
Scholarships	40,905,816
Broadcast services	322,485
	<u>\$ 60,698,127</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions accomplished	
Academic and student support program expenses	\$ 11,098,451
Capital program expenses and debt service	6,323,320
Other program expenses	360,119
	<u>\$ 17,781,890</u>

Note 12: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2019.

	Fair Value Measurements Using				
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV (A)
Assets					
Cash equivalents	\$ 5,020,043	\$ 5,020,043	\$ -	\$ -	\$ -
Investments					
Money market funds	1,969,589	1,969,589	-	-	-
U.S. equity mutual funds	24,444,004	24,444,004	-	-	-
Non-U.S. equity mutual funds	28,530,950	28,530,950	-	-	-
U.S. Treasury securities	34,916,233	-	34,916,233	-	-
Corporate bonds	6,891,879	-	6,891,879	-	-
Real estate funds	5,518,918	5,518,918	-	-	-
Hedge funds	2,521,652	-	3,267	-	2,518,385
Private equity	3,716,258	-	-	-	3,716,258
Other	3,500	3,500	-	-	-
Total investments	<u>108,512,983</u>	<u>60,466,961</u>	<u>41,811,379</u>	<u>-</u>	<u>6,234,643</u>
Investments held in trust					
Mutual funds	1,175,046	1,175,046	-	-	-
Other	771,029	426,557	250,997	93,475	-
Total assets	<u>\$ 115,479,101</u>	<u>\$ 67,088,607</u>	<u>\$ 42,062,376</u>	<u>\$ 93,475</u>	<u>\$ 6,234,643</u>
Liabilities					
Annuity obligations	\$ 508,060	\$ -	\$ -	\$ 508,060	\$ -

(A) Certain investments that are measured using the net assets value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliations of the fair value hierarchy to the amounts presented in the statements of financial position.

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Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash equivalents, money market funds, equity securities, hedge funds and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Inputs used to value Level 2 securities include interest rates for similar debt securities and Treasury obligations with similar maturities.

Investments Held in Trust

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the investments are classified as Level 1, Level 2 and Level 3 of the hierarchy. The Level 3 investments are the Foundation's beneficial interest in trusts. Fair value is determined based on the market value of the securities held in the trusts and the Foundation's proportional beneficial interest.

Cash Equivalents

The carrying amount approximates fair value.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at June 30, 2019.

	Fair Value at 6/30/2019	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Investments held in trust	\$ 93,475	Market value of underlying securities	Liquidation discount rate	0%

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Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	Investments Held in Trust
Balance, June 30, 2018	\$ 94,456
Net realized gains (losses) on sales of investments	(981)
Balance, June 30, 2019	\$ 93,475
	Annuity Obligations
Balance, June 30, 2018	\$ 140,320
Actuarial loss on annuity and trust obligations	32,396
Net realized gains (losses) on sales of investments	335,344
Balance, June 30, 2019	\$ 508,060

Fair Value of Financial Instruments

The following method and assumptions were used to estimate the fair value of all other financial instruments recognized in the accompanying statement of financial position at amounts other than fair value.

Pledges Receivable

The carrying amount is a reasonable estimate of fair value as described in *Note 9*, which is estimated by discounting the cash flows of the future payments expected to be received.

Annuities and Trusts Payable

Fair values of the annuity and trust obligations are based on the present value of the estimated annuity or other payments under such obligations. The valuations are based on such factors as the life expectancy of the annuitants and grantors and utilize discount factors to calculate present value.

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Note 13: Functional Expenses

As described in *Note 1*, the financial statements report certain categories of expenses that are attributed to more than one program or supporting function. The tables below present expenses by both their nature and their function. Program and support services expenses consist of the following:

	2019					Total Program Services
	Program Services					
	Student Services	Instruction and Academic	Scholarships	Institutional Support	Capital Projects	
Personnel	\$ 300,462	\$ 184,804	\$ -	\$ 29,974	\$ -	\$ 515,240
Utilities	-	-	-	-	-	-
Travel	12,863	70,900	-	14,889	-	98,652
Educational supplies and service agreements	945	2,244,962	-	360,233	-	2,606,140
Supplies, services and other	382,220	406,083	-	407,478	76,370	1,272,151
Broadcast services	-	864,287	-	-	-	864,287
Fundraising	107,024	5,065	-	-	-	112,089
Arena debt	-	-	-	-	1,800,000	1,800,000
Transfer to university	3,147,470	1,311,821	2,422,492	722,718	5,616,192	13,220,693
Total expenses	\$ 3,950,984	\$ 5,087,922	\$ 2,422,492	\$ 1,535,292	\$ 7,492,562	\$ 20,489,252

	2019			Total Program and Support Services
	Support Services			
	Rental Expenses	Institutional Support	Total Support Services	
Personnel	\$ 110,015	\$ 2,752,968	\$ 2,862,983	\$ 3,378,223
Utilities	134,304	-	134,304	134,304
Travel	-	5,643	5,643	104,295
Educational supplies and service agreements	-	248,790	248,790	2,854,930
Supplies, services and other	367,468	-	367,468	1,639,619
Broadcast services	-	-	-	864,287
Fundraising	-	346,195	346,195	458,284
Arena debt	-	-	-	1,800,000
Transfer to university	-	-	-	13,220,693
Total expenses	\$ 611,787	\$ 3,353,596	\$ 3,965,383	\$ 24,454,635

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Note 14: Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019, comprise the following:

Financial assets at year end	
Cash and cash equivalents	\$ 11,722,498
Accounts receivable, net	6,069
Pledges receivable, net	18,733,665
Investments	<u>108,748,950</u>
Total financial assets at year end	<u>139,211,182</u>
Less amounts restricted or not available to be used within one year	
Pledges receivable, due after one year	(11,697,214)
Investments held in custodial and noncustodial annuities and trusts	(68,094)
Endowment investments	(86,117,454)
Investments in nonliquid securities	<u>(7,954,930)</u>
Financial assets not available to meet general expenditures within one year	<u>(105,837,692)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 33,373,490</u>

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity. In addition, the Foundation receives support without donor restrictions. Contributions and the income generated from endowments are used to provide scholarships, faculty support, improve facilities and to support student programs. Such support has historically represented approximately 85 percent of annual program funding needs, with the remainder funded by investment income without donor restrictions and appropriated earnings from gifts with donor restrictions.

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated (quasi) endowments, contributions without donor restrictions and contributions with donor restrictions to meet ongoing obligations, major and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include instruction and academic program support, student services, institutional support, scholarships, rental expenses and capital projects expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and

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- Maintaining sufficient reserves to provide reasonable assurance that long-term commitments and obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100 percent of annual expenses.

Note 15: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contributions and Pledges Receivable

Approximately 22 percent of total contributions received during the year ended June 30, 2019, was from two donors, all individually greater than 10 percent of total contributions. Approximately 34 percent of the net pledges receivable balance outstanding at June 30, 2019, was due from Jonathon Eilian and affiliated entities (JD Holdings).

Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement of financial position.

Note 16: Subsequent Events

Subsequent events have been evaluated through December 2, 2019, which is the date the financial statements were available to be issued.