

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Independent Auditor's Report and Financial Statements

June 30, 2018

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
June 30, 2018

Contents

Independent Auditor’s Report..... 1

Financial Statements

Statement of Financial Position..... 3
Statement of Activities 4
Statement of Cash Flows 5
Notes to Financial Statements 6

Independent Auditor's Report

Board of Directors
University of Central Missouri Foundation
Warrensburg, Missouri

We have audited the accompanying financial statements of University of Central Missouri Foundation, a component unit of the University of Central Missouri, which comprise the statement of financial position as of June 30, 2018, 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.

Board of Directors
University of Central Missouri Foundation
Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Central Missouri Foundation as of June 30, 2018, 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.

BKD, LLP

Springfield, Missouri
September 27, 2018

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Statement of Financial Position
June 30, 2018

Assets

Cash	\$ 123,167
Investments	53,290,258
Contributions receivable, net	1,156,179
Accrued investment income	226,555
Notes receivable	2,577,275
Cash surrender value of life insurance	442,078
Beneficial interests in trusts	930,711
Prepaid expenses	<u>13,822</u>
Total assets	<u><u>\$ 58,760,045</u></u>

Liabilities and Net Assets

Liabilities

Accrued expenses and due to University	\$ 285,314
Deferred revenue	11,882
Annuities payable	<u>1,356,475</u>
Total liabilities	<u>1,653,671</u>

Net Assets

Unrestricted	7,191,092
Temporarily restricted	23,147,417
Permanently restricted	<u>26,767,865</u>
Total net assets	<u>57,106,374</u>
Total liabilities and net assets	<u><u>\$ 58,760,045</u></u>

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Gifts	\$ 344,398	\$ 2,107,684	\$ 920,877	\$ 3,372,959
In-kind gifts	913,631	202,824	-	1,116,455
Other income	12,963	130,848	-	143,811
Investment income	247,955	902,515	57,120	1,207,590
Net realized and unrealized gain (loss) on investments and beneficial interests in trusts	818,250	1,625,273	(458,870)	1,984,653
Change in donor restrictions	24,868	(34,768)	9,900	-
Net assets released from restrictions	3,028,516	(3,028,516)	-	-
Total revenues, gains and other support	<u>5,390,581</u>	<u>1,905,860</u>	<u>529,027</u>	<u>7,825,468</u>
Expenses and Losses				
Foundation expenses				
General administrative expenses	749,633	-	-	749,633
Fundraising expenses	1,179,720	-	-	1,179,720
Total Foundation expenses	<u>1,929,353</u>	<u>-</u>	<u>-</u>	<u>1,929,353</u>
Expenses for University advancement				
Program expenses				
Scholarships	1,304,079	-	-	1,304,079
Academic support – TV	346,013	-	-	346,013
Student services – athletics	519,337	-	-	519,337
Instruction and other departmental	363,590	-	-	363,590
Support services				
Institutional support – plant facilities	385,679	-	-	385,679
Total expenses for University advancement	<u>2,918,698</u>	<u>-</u>	<u>-</u>	<u>2,918,698</u>
Actuarial loss on annuity obligations	-	69,890	62,407	132,297
Total expenses and losses	<u>4,848,051</u>	<u>69,890</u>	<u>62,407</u>	<u>4,980,348</u>
Change in Net Assets	542,530	1,835,970	466,620	2,845,120
Net Assets, Beginning of Year	<u>6,648,562</u>	<u>21,311,447</u>	<u>26,301,245</u>	<u>54,261,254</u>
Net Assets, End of Year	<u>\$ 7,191,092</u>	<u>\$ 23,147,417</u>	<u>\$ 26,767,865</u>	<u>\$ 57,106,374</u>

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Statement of Cash Flows
Year Ended June 30, 2018

Operating Activities	
Change in net assets	\$ 2,845,120
Items not requiring (providing) operating activities cash flows	
Net realized and unrealized gain on investments	(1,984,653)
Actuarial loss on annuity and beneficial interests in trusts obligations	132,297
Investment income restricted for long-term investment	(57,120)
Contributions restricted for long-term investment	(920,877)
Change in cash surrender value of life insurance	(17,081)
Issuance of annuity obligations	47,959
Changes in	
Contributions receivable, net	346,179
Accrued investment income	7,118
Prepaid expenses	7,768
Accrued expenses and due to University	41,026
Net cash provided by operating activities	<u>447,736</u>
Investing Activities	
Purchase of investments	(10,619,227)
Proceeds from sale or maturity of investments	9,389,108
Issuance of note receivable from University	(431,170)
Principal payments received on note receivable from University	124,110
Net cash used in investing activities	<u>(1,537,179)</u>
Financing Activities	
Payments on annuities payable	(219,828)
Proceeds from contributions restricted for long-term investment	627,991
Net cash provided by financing activities	<u>408,163</u>
Decrease in Cash and Restricted Cash Equivalents	(681,280)
Cash and Restricted Cash Equivalents, Beginning of Year	<u>1,263,412</u>
Cash and Restricted Cash Equivalents, End of Year	<u><u>\$ 582,132</u></u>
Reconciliation of Cash and Restricted Cash Equivalents to the Statement of Financial Position	
Cash	\$ 123,167
Restricted cash equivalents included in investments	<u>458,965</u>
Total cash and restricted cash equivalents	<u><u>\$ 582,132</u></u>

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Notes to Financial Statements
June 30, 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The University of Central Missouri Foundation (the “Foundation”) is a not-for-profit corporation formed in 1979 to promote the educational, benevolent, and research purposes of the University of Central Missouri (the “University”). The Foundation is a component unit of the University. The primary purpose of the Foundation is to solicit gifts from individuals and businesses for the benefit of the University. These gifts are utilized to provide scholarships to students and financial support to various University programs in order to continue to offer a high-quality education to the students of the University.

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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the periods. Actual results could differ from those estimates.

Investments and Investment Return

Investments in equity and debt securities are stated at estimated fair value based on quoted market prices at each year end. Investments in real estate held by the Foundation for probable future use toward charitable purposes are carried at estimated fair value. Gains or losses that result from market fluctuations occur and are recorded. Realized gains or losses resulting from sales of securities are calculated on an adjusted cost basis. Adjusted cost for this purpose is the estimated fair value of the security at the beginning of the year, or the cost if purchased during the year. Dividend and interest income is accrued when earned. Investment expenses of \$113,808 are netted against investment income in the statement of activities for the year ended June 30, 2018.

Where permitted by gift agreement and/or applicable regulations, certain assets are included in one of three investment pools. Pooled investments and allocation of pooled investment income are accounted for using the unit market value method.

Realized gains and losses from the sale or disposition of investments and other non-cash assets are accounted for within the unrestricted net asset class or the temporarily or permanently restricted net asset classes, if so stipulated by the donor of such assets.

Unrealized appreciation/depreciation from certain investments in securities and ordinary income earned from investments and similar sources is accounted for in the same manner as realized gains and losses.

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Notes to Financial Statements
June 30, 2018

Management of Pooled Investments

The Foundation manages three separate investment pools designated as Pool A, Pool B, and Pool C. Pooled investments and allocation of pooled investment income are accounted for using the unit market value method. For Pool A, the annual earnings are accumulated and an annual payout is calculated based on a Board approved spending rate that is applied to the average market value of Pool A funds.

Earnings in excess of the annual payout are accumulated to be used as payouts for future years. The approved spending rate to fund programs, projects and scholarships was 4.96% for fiscal year 2018.

Pool A consists of endowment funds, as well as other funds functioning as endowments, permanently restricted funds, temporarily restricted funds, and unrestricted funds. These funds are invested for capital appreciation in anticipation of greater long-term returns recognizing that current yields from interest and dividends may be lower than the total payout. Using the total rate of return methodology, when ordinary income generated by Pool A is insufficient to provide the full amount of the total payout, the remainder may be appropriated from Pool A's accumulated undistributed realized gains. In no event will the payout cause the endowment funds to decrease below the original corpus of the endowment.

Pool B consists of funds from charitable remainder annuity trusts that are invested with a goal of meeting the specified distribution amounts as provided in the trust agreements.

Pool C consists of funds from charitable gift annuities that are invested with a goal of meeting the specified distribution amounts as provided in the gift annuity agreements.

The following is a summary of the Foundation's investment and spending policies for funds functioning as endowments:

The primary objectives of the investment policy are to: (A) maintain intergenerational equity as measured by achieving a real long-term return after total spending that at least equals inflation; (B) create investment returns to meet the current and future program or expenditure needs designated by donors; (C) create a flow of investment returns to assist the Board of Directors in funding operating expenses of the Foundation, including sufficiently building operating reserves for future use; and (D) maximize risk-adjusted returns. The objectives of the spending policy are to: (A) provide consistent funding for programs, projects or scholarships as designated by the donor(s); (B) provide for annual assessments for operating reserves and expenses; and (C) provide for long-term growth of the corpus of the investments.

The portfolio should be diversified both as to fixed income and equity holdings; the purpose of such diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total portfolio.

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Notes to Financial Statements
June 30, 2018

The equity component of the portfolio shall range from 30% to 70%, the fixed income component shall range from 20% to 50%, alternative investments shall range from 10% to 20% and cash and cash equivalents shall range from 0% to 5%.

The Foundation's spending policy allows for an annual distribution to scholarship and continuing project funds based upon a calculated 12-quarter rolling average market value of the portfolio times the payout rate approved by the Board. The Committee to the Board reviews the performance of the Funds Functioning as Endowments portfolio each year and establishes a payout rate in January for the next fiscal year. The total distribution for spending may include appropriations for operating reserves and expenses.

The following is a summary of the Foundation's investment and spending policies for split-interest agreements intended to apply to the charitable gift annuity and trust investment assets:

The primary objectives of the investment policy are to: (A) invest the entire gift in order to make the required annuity payments; (B) maximize return within a reasonable and prudent level of risk; and (C) maintain an appropriate asset allocation that is compatible with the required annuity payments, while still having the potential to retain at least 50% of the initial gift if the donor(s) live to their life expectancy.

The equity component of the portfolio shall range from 35% to 75%, the fixed income component shall range from 20% to 50%, alternative investments shall range from 0% to 10% and the cash component shall range from 5% to 15%.

All spending will be based on the contractual requirements of each charitable gift annuity and trust agreement.

The following is a summary of the investment policy for expendable funds:

The primary objectives of the investment policy are: (A) the preservation of capital while attempting to keep up with inflation; (B) the maximization of returns with minimal levels of risk; and (C) the management of liquidity requirements.

The equity component of the portfolio shall range from 0% to 18%, the fixed income component shall range from 75% to 100%, alternative investments shall range from 0% to 7% and the cash component shall range from 0% to 5%.

Spending of expendable funds will be governed by the intent of donors.

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Notes to Financial Statements
June 30, 2018

Temporarily Restricted Net Assets

The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use by time or purpose of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions restricted for capital improvements are released to unrestricted revenue at the time the funds are expended for the specified improvement and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets

Permanently restricted net asset are those which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and the income only be utilized for purposes specified by the donor.

Gifts

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets 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 gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Permanently restricted net assets are those which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and the income only be utilized for purposes specified by the donor.

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Notes to Financial Statements
June 30, 2018

In-Kind Gifts

In-kind gifts are recorded as revenue and expense in the accompanying financial statements. These contributions consist of equipment, services, and materials and supplies, all of which are recorded at the estimated fair value.

Compensation and benefits for some University employees who provide services for the Foundation are paid by the University and are not reimbursed by the Foundation. The unreimbursed compensation and benefits for these employees is included in in-kind gifts in the accompanying statement of activities. In-kind gifts totaled \$910,830, of which \$160,358 was recognized in general administrative expenses and \$750,472 was recognized in fundraising expenses.

Income Taxes

The Internal Revenue Service has issued a determination letter that the Foundation is a nonprofit organization, as defined under Section 501(c)(3) of the Internal Revenue Code. As such, the Foundation is generally exempt from income taxes. It is, however, required to file the information return, federal Form 990, *Return of Organization Exempt from Income Tax*, and federal Form 990-T to report unrelated business income.

Subsequent Events

The Foundation has evaluated subsequent events through September 27, 2018, the date the financial statements were available to be issued. No subsequent events were noted.

Note 2: Investments

Investments at June 30 consisted of the following:

	Amortized Cost	Fair Value
Money market mutual funds	\$ 458,965	\$ 458,965
Domestic equity	15,946,509	21,894,595
International equity	6,365,278	7,055,916
Fixed income	20,664,534	20,135,319
Alternative	3,415,976	3,427,463
Real estate held as an investment	301,492	318,000
	<u>\$ 47,152,754</u>	<u>\$ 53,290,258</u>

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Notes to Financial Statements
June 30, 2018

Note 3: Contributions Receivable

Contributions receivable consist of unconditional gifts and bequests to be received in future periods and are discounted to their present value based on anticipated payment streams. Unconditional contributions receivable consisted of the following at June 30:

	Temporarily Restricted	Permanently Restricted	Total
Due within one year	\$ 66,018	\$ 95,945	\$ 161,963
Due in one to five years	1,031,297	123,400	1,154,697
Due in more than five years	20,000	69,845	89,845
	<u>1,117,315</u>	<u>289,190</u>	<u>1,406,505</u>
Less			
Allowance for uncollectible contributions	46,427	168,867	215,294
Unamortized discount	15,166	19,866	35,032
	<u>\$ 1,055,722</u>	<u>\$ 100,457</u>	<u>\$ 1,156,179</u>

Discount rates ranged from 1% to 2.4% for the year ended June 30, 2018.

Note 4: Planned Contributions (UNAUDITED)

The Foundation has been named in a number of wills as a beneficiary and has also been informed of other intentions to give. Such intentions to give, which cannot be recorded as contributions receivable until they become unconditional, aggregated approximately \$7,918,415 at June 30, 2018.

Note 5: Notes Receivable

Note receivable from the University, unsecured, dated July 31, 2015, bearing interest at 4%, with fifteen annual payments of \$214,919, due July 31, 2030	\$ 2,146,105
Note receivable from the University, unsecured, dated December 31, 2017, bearing interest at 5%, with five annual payments of \$99,589, due December 31, 2022	<u>431,170</u>
	<u>\$ 2,577,275</u>

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Notes to Financial Statements
June 30, 2018

Note 6: Beneficial Interests in Trusts

The Foundation is named as the beneficiary of a charitable trust and a unitrust held by third-party trustees totaling \$319,100 at June 30, 2018.

The Foundation is named as the beneficiary of a perpetual trust held by a third-party trustee. Under the terms of the trust, the Foundation is designated to receive the net income derived from trust assets on a quarterly basis, which is to be used for the purpose of scholarships and is recorded as temporarily restricted net assets. The Foundation is the beneficiary of the trust with the condition that the University continues to operate or maintain an accredited four-year college for a term in excess of 24 successive calendar months. The Foundation records its beneficial interest in the trust at fair value. Changes in the fair value of the Foundation's interest in the trust are reflected as unrealized gains or losses in the statement of activities in the year in which they take place. The gain on this trust was \$21,623 for the year ended June 30, 2018. The Foundation's share in the trust had a value of \$611,611 at June 30, 2018.

Note 7: Annuities Payable

The Foundation has entered into split interest agreements, including a charitable remainder trust plan and a charitable gift annuity program. The Foundation has established a charitable remainder trust plan whereby donors may contribute assets to the Foundation in exchange for the right of a named beneficiary or beneficiaries to receive a fixed-dollar or a fixed-percentage annual return during their lifetimes. The Foundation has also established a charitable gift annuity program whereby, in exchange for a donor's contribution, the Foundation promises to make fixed payments for life to one or more annuitants. The amount paid is based on the age(s) of the annuitant(s), in accordance with the Foundation's rate schedule, which is based on actuarially determined life expectancy tables, trust asset growth assumptions, and discount rates ranging from 2.4% to 6.8%. The difference between the amount of the gift and the present value of the liability for future payments, determined on an actuarial basis, is recognized as a contribution at the date of the gift. Contributions related to split interest agreements, including trusts and unitrusts held by third party trustees, totaled \$52,033 for the year ended June 30, 2018. The gifts are classified as either temporary or permanently restricted assets based on how the remainder will be used at the termination of the annuity period per the individual agreements. The liability is revalued annually based upon actuarially computed present values, and any resulting actuarial gain or loss is recorded in the statements of activities and changes in net assets. The investments are held in separate accounts and follow the Investment and Spending Policies for Split-Interest Agreements as approved by the Board of Directors.

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Notes to Financial Statements
June 30, 2018

A summary of assets held and obligations related to split interest agreements is as follows as of June 30:

Assets	
Charitable remainder trusts/unitrusts (Pool B)	\$ 1,560,049
Charitable gift annuities (Pool C)	<u>961,486</u>
	<u>\$ 2,521,535</u>
Liabilities	
Split interest agreement obligations	<u>\$ 964,501</u>

In addition to the obligations for the split interest agreements, annuities payable also include the future obligation relating to the settlement of an estate gift. The present value of this liability was \$391,974 for the year ended June 30, 2018.

Note 8: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018, are available for the following purposes:

Scholarships	\$ 5,940,627
Instruction and other departmental	7,312,946
Student services – athletics	352,138
Academic support – TV	188,612
Institutional support – plant facilities	2,538,375
Net accumulated earnings in excess of approved payout	<u>6,814,719</u>
	<u>\$ 23,147,417</u>

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2018, the income of which are restricted to:

Scholarships	\$ 22,964,470
Instruction and other departmental	3,644,722
Student services – athletics	106,357
Academic support – TV	12,071
Institutional support – plant facilities	<u>40,245</u>
	<u>\$ 26,767,865</u>

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Notes to Financial Statements
June 30, 2018

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, by occurrence of other events specified by donors or Board-approved administrative allocations.

Note 9: Endowment

The Foundation's endowment consists of approximately 400 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors 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 permanently restricted net assets (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 temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by 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, 2018, was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 16,600,922	\$ 25,319,820	\$ 41,920,742
Board-designated endowment funds	3,480,142	-	-	3,480,142
Total endowment funds	\$ 3,480,142	\$ 16,600,922	\$ 25,319,820	\$ 45,400,884

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Notes to Financial Statements
June 30, 2018

Changes in endowment net assets for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,973,189	\$ 15,258,195	\$ 24,775,077	\$ 43,006,461
Investment return				
Investment income	-	901,608	-	901,608
Net realized and unrealized gain (loss) on investments	541,234	1,488,382	(386,034)	1,643,582
Total investment return	541,234	2,389,990	(386,034)	2,545,190
Gifts	38,079	213,370	920,877	1,172,326
Appropriation of assets for expenditure	(130,582)	(1,218,847)	-	(1,349,429)
Change in donor restrictions	58,222	(26,262)	9,900	41,860
Actuarial loss on annuity obligations	-	(15,524)	-	(15,524)
Endowment net assets, end of year	<u>\$ 3,480,142</u>	<u>\$ 16,600,922</u>	<u>\$ 25,319,820</u>	<u>\$ 45,400,884</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund for a perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. The deficiencies were \$38,134 at June 30, 2018. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The Foundation's investment and spending policies are disclosed in the *Management of Pooled Investments* section of *Note 1*.

Note 10: Transactions with the University

The Foundation incurs certain expenses for the direct advancement of University programs. Total expenses incurred by the Foundation for the advancement of the University were \$2,918,698 for the year ended June 30, 2018, and presented by purpose in the statement of activities. The amount due to the University for expenses not yet reimbursed by the Foundation was \$167,871 at June 30, 2018, and is included in accrued expenses and due to University on the accompanying statement of financial position.

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Notes to Financial Statements
June 30, 2018

Compensation and benefits for some University employees who provide services for the Foundation are reimbursed by the Foundation and are shown on the accompanying statement of activities as general administrative and fundraising expenses. Total compensation and benefits paid by the University and reimbursed by the Foundation were \$352,055 for the year ended June 30, 2018. The amount due to the University for compensation and benefits not yet reimbursed by the Foundation was \$85,361 at June 30, 2018, and is included in accrued expenses and due to University on the accompanying statement of financial position.

Compensation and benefits for some University employees who provide services for the Foundation are paid by the University and are not reimbursed by the Foundation. Compensation and benefits paid to these University employees were \$910,830, based on the percentage of time related to the Foundation, for the year ended June 30, 2018. The compensation and benefits for these employees is included in the accompanying statement of activities as in-kind gifts and general administrative and fundraising expenses.

The University rents certain real estate held as an investment from the Foundation. Rental income recognized by the Foundation during the year ended June 30, 2018 was \$12,963. The Foundation anticipates selling the real estate during the year ended June 30, 2019.

Note 11: Disclosures About Fair Value of Assets

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 supported by little or no market activity and are significant to the fair value of the assets or liabilities

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Notes to Financial Statements
June 30, 2018

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements 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, 2018:

	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Mutual funds				
Money market	\$ 458,965	\$ 458,965	\$ -	\$ -
Domestic equity	10,493,884	10,493,884	-	-
International equity	7,031,115	7,031,115	-	-
Common stock				
Domestic	6,947,419	6,947,419	-	-
International	24,801	24,801	-	-
Exchange traded funds				
Domestic	4,453,292	4,453,292	-	-
Fixed income investments				
Mortgage	1,395,256	-	1,395,256	-
Credit	10,427,555	38,260	10,389,295	-
U.S. Treasuries	2,244,662	2,244,662	-	-
Agencies	1,585,448	-	1,585,448	-
Asset backed securities	929,982	-	929,982	-
Taxable municipal bonds	2,062,931	-	2,062,931	-
Diversified taxable funds	445,846	445,846	-	-
Domestic preferred stock	203,130	203,130	-	-
Taxable high yield funds	641,359	641,359	-	-
Emerging markets	199,150	199,150	-	-
Alternative investments				
Hedge funds	2,912,241	2,912,241	-	-
Infrastructure	14,383	14,383	-	-
Commodities	500,839	500,839	-	-
Real estate held as an investment	318,000	-	-	318,000
Total investments	53,290,258	36,609,346	16,362,912	318,000
Beneficial interests in trusts	930,711	-	-	930,711
Total assets	\$ 54,220,969	\$ 36,609,346	\$ 16,362,912	\$ 1,248,711

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Notes to Financial Statements
June 30, 2018

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Beneficial Interest in Trusts

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 interest is classified within Level 3 of the hierarchy.

Level 3 Reconciliation

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

	Real Estate Held as an Investment	Beneficial Interests in Trusts
	<hr/>	<hr/>
Balance, July 1, 2017	\$ 314,000	\$ 937,847
Net unrealized gains on investments	4,000	31,068
Actuarial loss of annuity obligations	-	(36,369)
Purchases of investments	-	13,676
Proceeds from sales of investments	-	(15,511)
	<hr/>	<hr/>
Balance, June 30, 2018	<u>\$ 318,000</u>	<u>\$ 930,711</u>

University of Central Missouri Foundation
A Component Unit of the University of Central Missouri
Notes to Financial Statements
June 30, 2018

Note 12: Significant Estimates and Concentrations

Concentrations of Credit and Market Risk

The Foundation invests in various investment securities. Investment securities are subject to various risks, such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements. The Foundation has established guidelines to mitigate these risks. These guidelines are periodically reviewed and modified when necessary.