




Missouri State University Foundation

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2023



Missouri State University Foundation
June 30, 2023

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910 E. St. Louis Street, Suite 200 / Springfield, MO 65806

P 417.865.8701 / F 417.865.0682

forvis.com

Independent Auditor's Report

Board of Trustees
Missouri State University Foundation
Springfield, Missouri

Opinion

We have audited the consolidated financial statements of Missouri State University Foundation, which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Missouri State University Foundation as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of Missouri State University Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Missouri State University Foundation's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Missouri State University 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Missouri State University 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.

Report on Summarized Comparative Information

We have previously audited the 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 6, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

FORVIS,LLP

Springfield, Missouri
December 7, 2023

Missouri State University Foundation
Consolidated Statement of Financial Position
June 30, 2023 (with Comparative Totals for June 30, 2022)

Assets

	2023	2022
Cash and cash equivalents	\$ 14,755,918	\$ 1,908,080
Accounts receivable, net	12,730	74,008
Prepaid expenses	2,102,579	1,323,213
Investments	150,190,734	146,595,749
Investments held in trust	1,810,714	1,769,210
Investments held for resale	133,734	133,734
Pledges receivable, net	22,985,270	27,018,420
Real estate held for resale	-	17,500
Cash value of life insurance	414,795	405,641
Real estate and equipment, at cost	6,864,768	5,090,586
Accumulated depreciation	(3,470,852)	(3,287,855)
Total assets	\$ 195,800,390	\$ 181,048,286

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 5,740,197	\$ 1,279,423
Deferred revenue	1,379,177	620,392
Annuity obligations	198,651	263,734
Funds managed for Missouri State University	6,199,762	199,762
Total liabilities	13,517,787	2,363,311

Net Assets

Without donor restrictions	11,575,197	10,846,892
With donor restrictions		
Purpose restrictions or time-restricted for future periods	85,530,229	86,952,187
Perpetual in nature	85,177,177	80,885,896
Net assets with donor restrictions	170,707,406	167,838,083
Total net assets	182,282,603	178,684,975
Total liabilities and net assets	\$ 195,800,390	\$ 181,048,286

Missouri State University Foundation
Consolidated Statement of Activities
Year Ended June 30, 2023 (with Comparative Totals for the
Year Ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions – Purpose or Time-Restricted	2023 With Donor Restrictions – Perpetual in Nature	Total With Donor Restrictions	Total	2022
Revenues, Gains, and Other Support						
Contributions	\$ 513,347	\$ 8,653,784	\$ 4,270,214	\$ 12,923,998	\$ 13,437,345	\$ 24,660,119
In-kind contributions	11,725	12,956,999	-	12,956,999	12,968,724	1,576,014
Investment return, net	2,863,506	6,683,834	-	6,683,834	9,547,340	(9,844,635)
Gain (loss) on assets held in trust	-	113,614	19,765	133,379	133,379	(315,119)
Life insurance cash value decrease	(7,471)	16,625	-	16,625	9,154	(5,206)
Rental income	662,806	-	-	-	662,806	666,555
Other income	866	1,999,248	24,637	2,023,885	2,024,751	2,144,763
Personnel paid by affiliate	3,718,423	-	-	-	3,718,423	3,080,591
Net assets released from restrictions	31,812,972	(31,812,972)	-	(31,812,972)	-	-
	<u>39,576,174</u>	<u>(1,388,868)</u>	<u>4,314,616</u>	<u>2,925,748</u>	<u>42,501,922</u>	<u>21,963,082</u>
Total revenues, gains, and other support						
Expenses and Losses						
Instruction and academic program support	6,781,341	-	-	-	6,781,341	5,614,328
Student services	4,524,010	-	-	-	4,524,010	3,804,762
Institutional support	6,528,477	-	-	-	6,528,477	4,355,886
Scholarships	4,748,925	-	-	-	4,748,925	3,999,259
Rental expenses	1,446,254	-	-	-	1,446,254	588,597
Capital projects – Missouri State University	14,817,464	-	-	-	14,817,464	8,990,836
	<u>38,846,471</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,846,471</u>	<u>27,353,668</u>
Total expenses						
Actuarial loss on trust and annuity obligations	1,398	6,299	22,095	28,394	29,792	10,832
Provision for uncollectible pledges	-	26,791	1,240	28,031	28,031	4,992,015
Increase in value of real estate held for resale	-	-	-	-	-	(5,500)
	<u>38,847,869</u>	<u>33,090</u>	<u>23,335</u>	<u>56,425</u>	<u>38,904,294</u>	<u>32,351,015</u>
Total expenses and losses						
Change in Net Assets	728,305	(1,421,958)	4,291,281	2,869,323	3,597,628	(10,387,933)
Net Assets, Beginning of Year	<u>10,846,892</u>	<u>86,952,187</u>	<u>80,885,896</u>	<u>167,838,083</u>	<u>178,684,975</u>	<u>189,072,908</u>
Net Assets, End of Year	<u>\$ 11,575,197</u>	<u>\$ 85,530,229</u>	<u>\$ 85,177,177</u>	<u>\$ 170,707,406</u>	<u>\$ 182,282,603</u>	<u>\$ 178,684,975</u>

Missouri State University Foundation
Consolidated Statement of Cash Flows
Year Ended June 30, 2023 (with Comparative Totals for the
Year Ended June 30, 2022)

	<u>2023</u>	<u>2022</u>
Operating Activities		
Change in net assets	\$ 3,597,628	\$ (10,387,933)
Items not requiring (providing) operating activities cash flows		
Depreciation	182,997	182,494
Increase in value of real estate held for sale	-	(5,500)
Loss on sale of real estate held for sale	311	-
Net realized and unrealized (gains) losses on investments	(5,963,763)	12,320,391
Net realized and unrealized (gains) losses on investments held in trust	(133,379)	315,119
Actuarial loss on trust and annuity obligations	29,792	24,279
Noncash gifts	(1,563,135)	(572,274)
(Gain) loss on sale of securities	(11,140)	2,391
Contributions restricted for long-term investment	(4,442,799)	(4,939,962)
Other income restricted for long-term investment	(24,637)	(26,186)
Changes in		
Accounts receivable	61,279	(37,290)
Prepaid expenses	(779,366)	955,309
Pledges receivable	4,033,150	938,277
Accounts payable and accrued expenses	4,460,774	(1,303,544)
Due from Missouri State University	-	1,600,000
Deferred revenue	758,785	(184,610)
Annuity obligations	(94,875)	(109,131)
Net cash provided by (used in) operating activities	<u>111,622</u>	<u>(1,228,170)</u>
Investing Activities		
Proceeds from sale of investments	156,011,926	279,943,082
Purchase of investments	(153,643,150)	(303,989,576)
Proceeds from sale of investments held in trust	91,875	92,270
Proceeds from sale of real estate held for sale	17,189	-
Purchases of real estate and equipment	(1,774,181)	(274,541)
Construction in progress transfer (acquisitions)	-	71,165
Proceeds from life insurance cashed	9,856	-
Increase (decrease) in cash value of life insurance	(19,010)	5,206
Net cash provided by (used in) investing activities	<u>694,505</u>	<u>(24,152,394)</u>
Financing Activities		
Proceeds from sale of securities restricted for investment in endowment and capital	1,574,275	569,883
Proceeds from contributions restricted for investment in endowment	4,442,799	4,939,962
Other income restricted for investment	24,637	-
Funds transferred from University for investment in endowment	6,000,000	26,186
Net cash provided by financing activities	<u>12,041,711</u>	<u>5,536,031</u>
Increase (Decrease) in Cash and Cash Equivalents	12,847,838	(19,844,533)
Cash and Cash Equivalents, Beginning of Year	<u>1,908,080</u>	<u>21,752,613</u>
Cash and Cash Equivalents, End of Year	<u>\$ 14,755,918</u>	<u>\$ 1,908,080</u>

Missouri State University Foundation

Notes to Consolidated Financial Statements

June 30, 2023

Note 1: Summary of Significant Accounting Principles

Purpose of the Foundation

The purpose of the Missouri State University Foundation (the “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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and its controlled entity, 521 Properties, LLC. All significant inter-entity transactions and balances have been eliminated in consolidation.

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 those resources be maintained in perpetuity.

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less, except as described below, to be cash equivalents. At June 30, 2023, cash equivalents consisted primarily of money market accounts with brokers.

Uninvested cash and cash equivalent accounts included in investment accounts, including funds held in trust by others, are not considered to be cash equivalents.

At June 30, 2023, the Foundation’s cash accounts exceeded federally insured limits by \$569,005. Cash and cash equivalents of \$13,925,447 are held in treasury securities that are not subject to federally insured limits.

Missouri State University Foundation

Notes to Consolidated Financial Statements

June 30, 2023

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.

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 as 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.

Conditional Contributions

The Foundation received conditional contributions to provide funds to conduct specific research or programs and had recognized a portion of these funds at June 30, 2023. The conditional contribution received but not recognized in the financial statements at June 30, 2023, was \$1,330,827 and is included in deferred revenue on the statement of financial position.

Conditional contributions having donor stipulations which are satisfied in the period the contribution is recorded are reported as revenue and net assets without donor restrictions.

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, 2023, \$12,968,724 was received in in-kind contributions.

Missouri State University Foundation
Notes to Consolidated Financial Statements
June 30, 2023

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, 2023, real estate and equipment includes building costs of \$5,691,968, land of \$120,000, tenant remodeling improvements of \$83,695, and equipment of \$969,105.

During fiscal year 2023, an additional property at 521 St. Louis was purchased. At June 30, 2023, real estate and equipment includes building costs of \$1,755,500 and equipment of \$18,681. These costs are included in the figures above.

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.

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 2020.

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.

Missouri State University Foundation
Notes to Consolidated Financial Statements
June 30, 2023

Comparative Amounts

The consolidated 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, 2022, 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. A functional expenses table (*Note 14*) 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.

Note 2: 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, 2023:

Pooled investments at market value	\$ 114,274,590
Number of pool shares	495,295
Market value per pool share	\$ 231
Fiscal year return	6.61%
Interest and dividend earnings	\$ 2,165,249
Net gains	\$ 5,625,888

Note 3: Investments and Net Investment Return

The Foundation measures securities, other than investments that qualify for the equity method of accounting, at fair value. Investments in private equity funds and hedge funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments.

Net investment return includes dividend and interest income 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. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Missouri State University Foundation
Notes to Consolidated Financial Statements
June 30, 2023

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 statement of activities as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

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, 2023:

Accrued income	\$ 304,199
Money market accounts	5,497,012
U.S. Treasury bills and notes	44,246,981
U.S. equity mutual funds	34,521,686
Non-U.S. equity mutual funds	24,331,957
U.S. Treasury securities	3,154,273
Corporate bonds	4,579,263
U.S. fixed income exchange-traded funds	16,774,917
Hedge funds	6,229,857
Private equity	10,547,089
Other	<u>3,500</u>
	<u><u>\$ 150,190,734</u></u>

During the year ended June 30, 2023, investment return consists of the following:

Investment income	\$ 3,572,437
Realized and unrealized losses on investments reported at fair value	6,299,643
Investment expenses	<u>(324,740)</u>
	<u><u>\$ 9,547,340</u></u>

Investments held in trust are deposited with The Northern Trust Company, Cadence Bank Asset Management and Trust, and Bank of America, N.A.

Missouri State University Foundation
Notes to Consolidated Financial Statements
June 30, 2023

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 13*. Alternative investments held at June 30, 2023, consist of the following:

		June 30, 2023	
	Fair Value	Unfunded Commitments	Redemption Notice Period
Private equity funds	\$ 10,547,089	\$ 7,930,163	N/A

Note 4: Pledges Receivable

Pledges receivable are a credit risk to the extent donors choose not to complete their pledge payments. Discount rates ranged from .250 percent to 5.232 percent. Pledges receivable consist of the following unconditional promises to give at June 30, 2023:

Due within one year	\$ 6,836,784
Due in one to five years	10,805,884
Due in more than five years	6,862,762
	24,505,430
Less: Allowance for doubtful accounts	541,683
Unamortized discount	978,477
	1,520,160
	\$ 22,985,270

Pledges are included in the following net asset classification:

With donor restrictions – purpose restrictions or time-restricted for future periods	\$ 17,989,170
With donor restrictions – perpetual in nature	4,996,100
	\$ 22,985,270

Refer to *Note 15* for additional disclosures regarding significant concentrations and uncertainties within the pledges receivable balance at June 30, 2023.

Missouri State University Foundation
Notes to Consolidated Financial Statements
June 30, 2023

Note 5: Endowment

The Foundation’s endowment consists of approximately 1,189 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, 2023, was:

	Without Donor Restrictions	With Donor Restrictions – Purpose or Time-Restricted	With Donor Restrictions – Perpetual in Nature	Total
Donor-restricted endowment funds	\$ -	\$ 25,459,114	\$ 84,588,971	\$ 110,048,085
Board-designated endowment funds	3,197,425	-	-	3,197,425
Total endowment funds	\$ 3,197,425	\$ 25,459,114	\$ 84,588,971	\$ 113,245,510

Missouri State University Foundation
Notes to Consolidated Financial Statements
June 30, 2023

Changes in endowment net assets for the year ended June 30, 2023, were:

	Without Donor Restrictions	With Donor Restrictions – Purpose or Time-Restricted	With Donor Restrictions – Perpetual in Nature	Total
Endowment net assets, beginning of year	\$ 3,167,483	\$ 22,332,345	\$ 80,295,360	\$ 105,795,188
Investment return, net				
Investment income	-	2,880,196	-	2,880,196
Net appreciation (depreciation)	25,510	5,720,119	-	5,745,629
Total investment return, net	25,510	8,600,315	-	8,625,825
Contributions	-	-	4,268,974	4,268,974
Other income	-	(9,334)	24,637	15,303
Appropriation of endowment assets for expenditure	-	(6,236,302)	-	(6,236,302)
Other additions	4,432	772,090	-	776,522
Endowment net assets, end of year	\$ 3,197,425	\$ 25,459,114	\$ 84,588,971	\$ 113,245,510

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.

Missouri State University Foundation

Notes to Consolidated Financial Statements

June 30, 2023

At June 30, 2023, funds with original gift value of \$2,261,875; fair value of \$2,164,991; and deficiency of \$96,884 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 appropriations 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.

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 which 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 6.8 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 6: 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, 2023, is \$96,281. The income received by the Foundation from this trust was \$6,185 for this fiscal year. The Foundation is also the beneficiary of four charitable remainder trusts with a fair value at June 30, 2023, of \$1,714,433.

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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 pays 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, 2023.

The annuity obligation at June 30, 2023, of \$198,651 was calculated over the terms of the agreements based on the rates for government securities with similar maturities.

Note 7: Other Assets and Liabilities

Investments Held for Resale

Investments held for resale consist of tangible personal property and publicly traded common stock which are carried at fair value as of the date received. These investments totaled \$133,734 at June 30, 2023.

New Market Tax Credits

On May 20, 2020, the Foundation funded \$3,000,000 to the Missouri Development Finance Board and received \$1,500,000 in New Market Tax Credits to support the University's JVIC IV project. This transaction, allowed under Section 45D of the Internal Revenue Code of 1986 as amended (section 45D), allows the Foundation to sell tax credit to private investors. As of June 30, 2023, the Foundation had \$700,000 available in tax credits for sale.

Note 8: Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2023, are restricted for the following purposes or periods:

Any purpose, time restricted	\$ 26,628
Instruction and academic program support	24,006,564
Student services	4,512,309
Institutional support	13,569,094
Scholarships	37,431,791
Public service and Broadcast services	<u>5,983,843</u>
	<u><u>\$ 85,530,229</u></u>

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Net assets with donor restrictions that are perpetual in nature at June 30, 2023, are restricted to investments in perpetuity, the revenue from which is expendable to support:

Instruction and academic program support	\$ 20,603,485
Student services	1,394,423
Institutional support	2,908,974
Scholarships	59,611,591
Public service and Broadcast services	<u>658,704</u>
	<u>\$ 85,177,177</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	\$ 15,702,308
Capital program expenses and debt service	14,817,464
Other program expenses	<u>1,293,200</u>
	<u>\$ 31,812,972</u>

Note 9: Contributed Nonfinancial Assets

For the year ended June 30, 2023, contributed nonfinancial assets recognized within the consolidated statement of activities included:

Animals	\$ 4,500
Works of art	5,675
Clothing	150,174
Books	6,407
Equipment and supplies	336,349
Food inventory	18,794
Medical supplies	87,774
Auction items	144,015
Real estate	8,590,000
Services from community	<u>3,625,036</u>
Total	<u>\$ 12,968,724</u>

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The nonfinancial assets listed above were recognized within revenues, gains, and other support. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed items were utilized in the following programs and were valued using the following techniques and inputs.

	<u>Utilization in Programs/Activities</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques</u>
Animals	Horses for the Equine Program	To be used by Agriculture for Equine program	Animals were appraised by an independent Livestock Appraiser at Market Value.
Works of Art	Display at Ozarks Heritage Resource Center on West Plains campus and display at Meyer Library on Springfield campus	For view-only use for academic purposes and Library patrons	Artwork was appraised by an independent Fine Art and Personal Property Appraiser at Market Value.
Clothing	Socks for the Bear Pantry and MSU Care Clinic; men's formal wear for Theatre & Dance Department	For patrons who utilize the pantry and patients who utilize the clinic; for use in theatre productions	Clothing was valued at the fair market value that would have been received for selling the same or similar product.
Books	Books for the campus libraries' circulation collections	Campus Libraries	Books were valued based upon the Library Matrix at Market Value.
Equipment and supplies	Equipment and supplies for educational use in various campus programs; equipment for Bear Pantry	To be used by these programs	Equipment and supplies were valued at either the price tag still attached to the item or the fair market value that would have been received for selling the same or similar product.
Food inventory	Food and beverages for events or fundraising events benefiting Alumni Relations, Athletics, and Gerontology Club	To be used by these programs	Food inventory items were valued at fair market value that would have been received for selling the same or similar product.
Medical supplies	Thermometers for Nursing Department educational use; hand sanitizer for use at McQueary College of Health & Human Services and MSU Care Clinic; wheelchair for West Plains campus	To be used by these programs	Medical supplies were valued at fair market value that would have been received for selling the same or similar product.
Auction items	Items auctioned at various fundraising events to benefit Hospitality Leadership, Scholarships, Athletics, Agriculture, Broadcast Services, and Choral	Programs/departments mentioned in other block	Auction items were valued at fair market value that would have been received for selling the same or similar product – usually determined at the time the item is auctioned off.
Real estate	Residence hall for student housing; property for Broadcast Services and Idea Commons	To be used by these programs	Real estate was appraised by an independent Real Property Appraiser at Market Value.
Services from community	Advertising services, professional speaker service, use of vehicles, software subscriptions	Athletics, University Advancement, and general student population	Service items were valued at fair market value that would have been paid for purchasing the same or similar service.

Note 10: Leases

Accounting Policies

The Foundation determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of right-of-use (ROU) assets and lease liabilities on the consolidated statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Foundation determines lease classification as operating or finance at the lease commencement date.

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The Foundation separates lease and nonlease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its office buildings and employee vehicles.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Foundation has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that the Foundation is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Foundation has elected not to record leases with an initial term of 12 months or less on the consolidated statement of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Nature of Leases

As of the effective date and as of June 30, 2023, the Foundation did not have any ROU assets or related lease liabilities under ASC 842 lessee accounting. All existing leases as of June 30, 2023, were determined to be operating leases under lessor accounting with a lease term shorter than 12 months which resulted in total rental income from third parties of \$121,477. See *Note 11* for information surrounding leases with related parties.

Note 11: Related Party Transactions

The Foundation received contributed personnel services from the University of \$3,718,423 for the year ended June 30, 2023. 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, 2023, were \$554,119 and are included in rental income. This leasing arrangement is considered to be a short term lease with a lease term of shorter than 12 months. Accounts payable and accrued expenses include \$5,619,923 due to the University at June 30, 2023.

In 1982 the University's Board of Governors authorized the transfer of its endowment fund of \$199,762 to the Foundation for management purposes. During the year ended June 30, 2023, the University received and transferred \$6,000,000 of endowment funds to the Foundation for management purposes. The \$6,199,762 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.

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Note 12: 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, 2023, comprise the following:

Financial assets at year-end	
Cash and cash equivalents	\$ 14,755,918
Accounts receivable, net	12,730
Pledges receivable, net	22,985,270
Investments	150,190,734
Investments held in trust	1,810,714
Investments held for resale	<u>133,734</u>
Total financial assets at year-end	<u>189,889,100</u>
Less amounts restricted or not available to be used within one year	
Pledges receivable, due after one year	17,668,646
Investments held in custodial and noncustodial annuities and trusts	28,564
Endowment with donor restrictions	110,048,085
Investments in nonliquid securities	<u>3,500</u>
Financial assets not available to meet general expenditures within one year	<u>127,748,795</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 62,140,305</u></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 provide scholarships, faculty support, improve facilities, and support student programs. Such support has historically represented a significant 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.

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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
- 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 13: 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.

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated 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, 2023.

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	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	\$ 4,639	\$ 4,639	\$ -	\$ -	\$ -
Investments					
U.S. Treasury bills	44,246,981	44,246,981			-
Money market funds	5,497,012	5,497,012	-	-	-
U.S. equity mutual funds	34,521,686	34,521,686	-	-	-
Non-U.S. equity mutual funds	24,331,957	24,331,957	-	-	-
U.S. Treasury securities	3,154,273	-	3,154,273	-	-
Corporate bonds	4,579,263	-	4,579,263	-	-
U.S. fixed income exchange-traded funds	16,774,917	-	16,774,917	-	-
Hedge funds	6,229,857	-	-	-	6,229,857
Private equity	10,547,089	-	-	-	10,547,089
Other	3,500	3,500	-	-	-
Investments held in trust					
Mutual funds	1,338,089	1,338,089	-	-	-
Other	472,625	148,761	227,583	96,281	-
Total assets	\$ 151,701,888	\$ 110,092,625	\$ 24,736,036	\$ 96,281	\$ 16,776,946
Liabilities					
Annuity obligations	\$ 198,651	\$ -	\$ -	\$ 198,651	\$ -

(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 statement of consolidated financial position.

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, 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.

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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.

Note 14: 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 table below presents expenses by both their nature and their function. Program and support services expenses consist of the following:

	Program Services					Support Services		Total Program and Support Services
	Student Services	Instruction and Academic	Scholarships	Institutional Support	Capital Projects	Rental Expenses	Institutional Support	
Personnel	\$ 359,227	\$ 461,112	\$ -	\$ 60,108	\$ -	\$ 82,186	\$ 3,470,198	\$ 4,432,831
Utilities	-	-	-	-	-	140,385	-	140,385
Travel	54,413	96,116	-	93,225	-	-	43,666	287,420
Educational supplies and service agreements	60,236	2,009,875	-	5,930	-	-	126,051	2,202,092
Supplies, services, and other	415,910	948,454	-	192,483	63,552	1,223,683	857,160	3,701,242
Broadcast services	-	2,323,350	-	-	-	-	-	2,323,350
Fundraising	214,966	4,421	-	106,094	-	-	562,736	888,217
Arena debt	-	-	-	-	249,503	-	-	249,503
Transfer to University	3,419,258	938,013	4,748,925	115,060	14,504,409	-	895,766	24,621,431
Total expenses	\$ 4,524,010	\$ 6,781,341	\$ 4,748,925	\$ 572,900	\$ 14,817,464	\$ 1,446,254	\$ 5,955,577	\$ 38,846,471

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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 49 percent of total pledges receivable at June 30, 2023, was from two donors, each individually greater than 10 percent of total pledges receivable.

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 7, 2023, which is the date the financial statements were available to be issued.