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**HAGAN SCHOLARSHIP FOUNDATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

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**HAGAN SCHOLARSHIP FOUNDATION**

**DECEMBER 31, 2019**

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## **INDEPENDENT AUDITORS' REPORT**

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To the Trustee of  
**Hagan Scholarship Foundation**

We have audited the accompanying financial statements of **Hagan Scholarship Foundation** (the Foundation), a private foundation, which comprise the statement of net assets as of December 31, 2019, and the related statements of changes in net assets, functional expenses 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.

### **Auditors' 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 auditors' 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.



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**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Hagan Scholarship Foundation** as of December 31, 2019 and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter Regarding Subsequent Events**

As discussed in Note 11 to the financial statements, the Trust has been impacted by the effects of the world-wide coronavirus pandemic. Our opinion is not modified with respect to that matter.

*Kiefer Bonfanti & Co. LLP*

St. Louis, Missouri  
July 31, 2020

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HAGAN SCHOLARSHIP FOUNDATION

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STATEMENT OF NET ASSETS  
DECEMBER 31, 2019

Assets

Cash and cash equivalents	\$ 64,635,689
Scholar investment accounts	6,835,514
Construction in process - Hagan Scholarship Academy	11,860,191
Investments - common stocks, at fair value	139,337,621
Investment - rental real estate operation	43,367,802
Loan fees, net	44,436
<b>Total Assets</b>	<b>\$ 266,081,253</b>

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Liabilities and Net Assets

Accounts payable	\$ 282
Deferred income	50,148
Deferred federal excise taxes	469,262
Note payable	29,627,397
<b>Total Liabilities</b>	<b>30,147,089</b>
<b>Net Assets</b>	
Without donor restrictions	235,934,164
<b>Total Liabilities and Net Assets</b>	<b>\$ 266,081,253</b>

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**HAGAN SCHOLARSHIP FOUNDATION**

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**STATEMENT OF CHANGES IN NET ASSETS  
YEAR ENDED DECEMBER 31, 2019**

<b>Support, Revenues and Gains Without Donor Restrictions</b>	
Contributions	\$ 1,221,950
Realized and change in unrealized gains on investments	22,853,368
Dividend and interest income	4,406,774
Rental income, net of expenses	1,704,164
<hr/>	
<b>Total Support, Revenues and Gains Without Donor Restrictions</b>	<b>30,186,256</b>
<hr/>	
<b>Expenses</b>	
Program services	5,019,218
Management and general	1,031,191
<hr/>	
<b>Total Expenses</b>	<b>6,050,409</b>
<hr/>	
<b>Increase in Net Assets Without Donor Restrictions</b>	<b>24,135,847</b>
<b>Net Assets, Beginning of Year</b>	<b>211,798,317</b>
<hr/>	
<b>Net Assets, End of Year</b>	<b>\$ 235,934,164</b>
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**HAGAN SCHOLARSHIP FOUNDATION**

**STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2019**

	<b>Program Services</b>	<b>Management and General</b>	<b>Totals</b>
Scholarship expenditures	\$ 4,986,040	-	<b>\$ 4,986,040</b>
Taxes	-	604,797	<b>604,797</b>
Interest	-	359,622	<b>359,622</b>
Office supplies	-	29,464	<b>29,464</b>
Volunteers	29,200	-	<b>29,200</b>
Professional services	-	22,082	<b>22,082</b>
Information technology	-	5,062	<b>5,062</b>
Hagan Academy	-	4,856	<b>4,856</b>
Travel and conferences	3,978	-	<b>3,978</b>
Amortization expense	-	3,730	<b>3,730</b>
Other	-	1,578	<b>1,578</b>
<b>Total Expenses</b>	<b>\$ 5,019,218</b>	<b>1,031,191</b>	<b>\$ 6,050,409</b>
<b>Percentage of Total Expenses</b>	<b>83.0%</b>	<b>17.0%</b>	<b>100.0%</b>

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**HAGAN SCHOLARSHIP FOUNDATION**

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**STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2019**

<b>Cash Flows from Operating Activities</b>	
Increase in net assets	\$ 24,135,847
Adjustments:	
Increase in unrealized gains on investments	(26,329,826)
Increase in investment - rental real estate operation	(873,772)
Amortization expense	3,730
Decrease (increase) in assets	
Scholar investment accounts	(1,516,687)
Increase (decrease) in liabilities	
Accounts payable	(201,039)
Deferred income	50,148
Deferred excise taxes	263,298
<b>Net Cash Used by Operating Activities</b>	<b>(4,468,301)</b>
<b>Cash Flows from Investing Activities</b>	
Net purchases and sales of investments - common stocks	8,311,927
<b>Net Cash Provided by Investing Activities</b>	<b>8,311,927</b>
<b>Cash Flows from Financing Activities</b>	
Proceeds from note payable	30,000,000
Principal payments on note payable	(372,603)
Loan fees	(48,166)
<b>Net Cash Provided by Financing Activities</b>	<b>29,579,231</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>33,422,857</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>31,212,832</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 64,635,689</b>
<b>Supplemental Disclosure of Cash Flow Information</b>	
Cash paid for interest	\$ 359,622
Cash paid for taxes	\$ 541,499

# HAGAN SCHOLARSHIP FOUNDATION

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## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### ***Organization and Purpose***

**Hagan Scholarship Foundation** (the Foundation) provides nationwide need-based merit scholarships. Scholarship recipients will graduate from a public high school located in a county in the United States having fewer than 50,000 residents.

The Foundation was created in Missouri in 2008 as an irrevocable trust to award and to fund Hagan Scholarships in order to provide each recipient with the opportunity to obtain a four-year college education and graduate debt free, and to provide a practical understanding of important life skills not typically taught as part of the school curriculum. During 2017, the trust agreement under which the Foundation was formed was restated.

Donated assets of the Foundation are invested in accordance with requirements of the trust agreement, with earnings derived from such assets used for awards, reinvestment and operating purposes.

#### ***Method of Accounting***

The financial statements of the Foundation are presented on the accrual basis of accounting.

#### ***Financial Statement Presentation***

The Foundation reports information regarding its financial position and activities according to the following net asset classifications:

##### ***Net assets without donor restrictions***

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objective of the Foundation. These net assets may be used at the discretion of the Foundation's management and the board of directors.

##### ***Net assets with donor restrictions***

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. At December 31, 2019 there were no net assets with donor restrictions.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. There were no net assets subject to donor-imposed specific stipulations at December 31, 2019.

## HAGAN SCHOLARSHIP FOUNDATION

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### Notes to Financial Statements (Continued)

#### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### ***Financial Statement Presentation (Continued)***

The Foundation records all income or losses from its investments as changes in unrestricted net assets. These amounts are available for awards or operating purposes.

##### ***Use of Estimates***

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

##### ***Cash and Cash Equivalents***

The Foundation considers all highly liquid investments with maturity terms of three months or less when acquired to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value.

##### ***Investments***

Equity securities with readily determinable fair market values are carried at fair values based on quoted market prices. Investments in equity securities consist only of investments in common stock of publicly traded companies.

Investment gains or losses are recognized upon realization, or when their values are deemed to have been permanently impaired. The Foundation uses the specific identification method to determine its basis, which is based on the fair value at the beginning of the period (or date of acquisition, if acquired during the year), in computing realized gains and losses. Unrealized gains and losses are recognized based on changes in fair values during the period for those securities held at the end of the period. Interest, dividends, and distributions are recognized as income when received and are available for award and operating purposes.

Investments in rental real estate are carried at fair value based on appraisal at time of contribution or on purchase price and accumulated earnings from operation.

##### ***Revenue and Revenue Recognition***

The Organization receives revenue from contributions and leasing apartment units for varying terms which expire at various times during the year. The leases have been classified as operating leases. Revenue is recognized as rental income becomes due. Rental payments received in advance, if any, are deferred and classified as liabilities until earned.

## HAGAN SCHOLARSHIP FOUNDATION

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### Notes to Financial Statements (Continued)

#### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### ***Revenue and Revenue Recognition (Continued)***

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. There were no conditional promises to give for the years ended December 31, 2019.

##### ***Contributions***

Contributions of marketable securities are recorded at fair market value at the date of contribution.

##### ***Adoption of New Accounting Standard***

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" and ASU No. 2018-08, "Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)". The ASUs replaced most existing revenue recognition guidance in U.S. GAAP.

The Organization has completed its evaluation of the impact of adopting ASU No. 2014-09 and ASU No. 2018-08 on the financial statements and internal revenue recognition policies. Analysis of various provisions of these standards resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a modified retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with these standards.

##### ***Functional Expenses***

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited. Such allocations are determined by management on an equitable basis.

# HAGAN SCHOLARSHIP FOUNDATION

## Notes to Financial Statements (Continued)

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ***Functional Expenses (Continued)***

The expenses that are allocated include the following:

<b>Expense</b>	<b>Method of Allocation</b>
Scholarship expenditures	Direct costs
Taxes	Direct costs
Interest	Direct costs
Office supplies	Direct costs
Volunteers	Direct costs
Professional services	Direct costs
Information technology	Direct costs
Hagan Academy	Direct costs
Travel and conferences	Direct costs
Amortization Expense	Direct costs
Other	Direct costs

#### ***Income Tax Status***

The Foundation is organized as a private foundation exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code (the Code) and is classified as a private foundation as defined under Section 509 of the Code and as a "Private Operating Foundation" as defined in Section 4942(j)(3) of the Code. In accordance with the provisions of the Code, the Foundation is liable for excise tax on net investment income as defined by the Code and is subject to taxes on unrelated business income for both federal and state income tax purposes.

Deferred federal excise taxes are the result of unrealized appreciation on investments being reported for financial statement purposes in different periods than for tax purposes.

#### ***Distribution Policy***

The Foundation's policy is to appropriate for award distributions each year such amounts as are determined by the Foundation's calculation for disbursements as required by Section 509(a) of the Code.

#### ***Risks and Uncertainties***

The investments of the Foundation are exposed to market risks. Due to the level of risk associated with the Foundation's investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in values in the near term could affect the Foundation's investment balances and the amounts reported in the statement of changes in net assets and the statement of net assets.

# HAGAN SCHOLARSHIP FOUNDATION

## Notes to Financial Statements (Continued)

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Risks and Uncertainties (Continued)*

Although the market value of investments is subject to fluctuations on a year-to-year basis, management believes its investment policy is prudent for the long-term welfare of the Foundation.

#### *Subsequent Events*

Management has evaluated subsequent events through July 31, 2020, the date which the financial statements were available to be issued, for possible recognition or disclosure. Refer to Note 11.

### 2. LIQUIDITY AND AVAILABILITY

The Foundation's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

<b>Financial assets at December 31, 2019:</b>	
Cash and cash equivalents	\$ 64,635,689
Scholar investment accounts	6,835,514
Investments	182,705,423
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<b>Financial assets available to meet general expenditures over the next twelve months</b>	<b>\$ 254,176,626</b>

### 3. RENTAL REAL ESTATE

As of December 30, 2012, rental real estate was contributed in its entirety to **Hagan Scholarship Foundation** as an investment of the Foundation for its benefit. The rental real estate was recorded at fair value based on an independent appraisal. Depreciation is recorded on the straight-line basis over estimated lives of 5 to 27.5 years. During 2013, the rental real estate was conveyed to Hagan Trust for management and operation.

At December 31, 2019, rental real estate consists of the following:

Land, buildings and equipment, at cost	\$ 35,924,563
<u>Less accumulated depreciation</u>	<u>(8,751,414)</u>
<b><u>Land, Buildings and Equipment, Net</u></b>	<b><u>\$ 27,173,149</u></b>

## HAGAN SCHOLARSHIP FOUNDATION

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### Notes to Financial Statements (Continued)

#### 3. RENTAL REAL ESTATE (CONTINUED)

Results of rental real estate operations for the year ended December 31, 2019 consists of the following:

Rental revenue	\$ 3,631,951
Less rental expenses	(1,977,789)
<b>Net Rental Income</b>	<b>\$ 1,654,162</b>

#### 4. HAGAN SCHOLARSHIP ACADEMY

Subsequent to December 31, 2012, the Foundation acquired real estate in Columbia, Missouri on which it intends to build a college preparatory academy for high-achieving junior- and senior-level high school students in a residential setting. In addition to classroom space, the academy facilities will include dormitories and administrative offices.

#### 5. SCHOLAR INVESTMENT ACCOUNTS

The Foundation establishes Scholar Investment Accounts of \$10,000 for each scholarship recipient during the fall semester of their sophomore year. The recipients are permitted to invest the funds pursuant to the instructions and guidelines of the Foundation. All funds and accumulated earnings remain the property of the Foundation until the recipient graduates from college. Upon graduation from college, all earnings (dividends and appreciation in fair value) will be awarded to the recipient. Recipients will not be responsible for losses, if any, in their account. During 2019, \$226,130 was distributed to scholarship recipients upon graduation.

#### 6. INVESTMENTS

At December 31, 2019, all common stock investments of the Foundation are managed by Hagan Trust, a trust organized by the grantor who organized **Hagan Scholarship Foundation**.

Fair value	\$ 139,337,621
Cost basis	92,411,415
<b>Unrealized Gain</b>	<b>\$ 46,926,206</b>

## HAGAN SCHOLARSHIP FOUNDATION

### Notes to Financial Statements (Continued)

#### 6. INVESTMENTS (CONTINUED)

The cost basis presented on the previous page represents the historical basis for income tax purposes. Realized gains or losses for financial reporting purposes for securities sold are determined based on the fair value at the beginning of the period. (See Note 1).

Investments in common stock at December 31, 2019 are as follows:

	<u>Fair Value</u>
Allianz	\$ 17,757,673
Athene Holding LTD	9,252,468
Bank of America Corp	13,002,604
Bank of NY Mellon	13,935,712
JP Morgan Chase & Co.	19,299,010
Linamar Corp	13,972,675
Lincoln National Corp	27,231,816
PNC Financial Services	14,733,146
Principal Financial	10,152,517
<b>Total</b>	<b>\$ 139,337,621</b>

Investment in rental real estate at December 31, 2019 was \$43,367,802.

#### 7. FAIR VALUE MEASUREMENTS

Financial accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 inputs) and the lowest priority to unobservable inputs (level 3 inputs). The three levels of the fair value hierarchy under the standards are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

## HAGAN SCHOLARSHIP FOUNDATION

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### Notes to Financial Statements (Continued)

#### 7. FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Inputs to the valuation methodology are significant unobservable inputs.

The fair value measurement level of the asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The inputs or methodologies used for valuing investments may not be an indication for the risk associated with investing in those securities. Furthermore, the Foundation believes its valuation methods are appropriate and consistent. The use of different methodologies or assumptions could result in a different fair value measurement at the reporting date. As of December 31, 2019, the fair values for all investments in common stocks were determined based on Level 1 inputs.

The Foundation's investment in rental real estate, as described in Note 2, was appraised as of the date of contribution. The appraisal is a Level 3 fair value measurement and is based on a combination of the financial performance of the rental real estate and sales of comparable properties. The investment was valued using the retrospective market value of a fee simple interest, which the Foundation believes represents the property's fair value. There are no unquantifiable measurements which contribute to the fair value of the investment in the rental real estate.

#### 8. NOTE PAYABLE

The Foundation obtained a \$30,000,000 loan with a bank on August 16, 2019. The loan bears interest at 3.15% with a maturity date of December 31, 2024 and is secured by real estate. The loan calls for annual payments of \$1,000,000 due at December 31<sup>st</sup> each year. Total interest expense on the note was \$359,622 for the year ended December 31, 2019. The balance of this loan was paid in full in after year end, refer to Note 11.

There were closing costs of \$48,166 that are being amortized over the life of the loan. Amortization expense for the year ended December 31, 2019 was \$3,730.

#### 9. RELATED PARTIES

At no cost, the Foundation receives administrative services from the grantor who organized the Foundation and investment management services from Hagan Trust, also organized by the grantor.

## HAGAN SCHOLARSHIP FOUNDATION

### Notes to Financial Statements (Continued)

#### 10. TAXES

The Internal Revenue Code requires the Foundation to distribute within 12 months of the end of each year approximately two-thirds of 5% of the average fair value of its assets not used in carrying out the charitable purpose of the Foundation. The distribution requirement began after a 5-year start-up period which ended on December 31, 2013.

The Internal Revenue Code imposes an excise tax on private foundations equal to 2% of net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income). This tax may be reduced to 1% for foundations that meet certain distribution requirements.

The provision for federal excise tax consists of a current provision on realized net investment income and a deferred provision on net unrealized appreciation of investments. The table below shows the tax expense for the year ended December 31, 2019:

<b>Current</b>	
Federal excise taxes	\$ 1,215
Foreign income taxes	340,284
<b>Total current tax expense</b>	<b>341,499</b>
<b>Deferred</b>	
Federal excise tax	263,298
<b>Total Tax Expense, Net</b>	<b>\$ 604,797</b>
Deferred federal excise taxes on unrealized appreciation at December 31, 2019	
	<u>\$ 469,262</u>

Financial accounting standards for uncertain tax positions prohibit financial statement recognition of the impact of a tax position if the position is not "more likely than not" to be sustained on audit, based on the technical merits of the position. The Foundation's Form 990-PF are subject to examination by taxing authorities, generally for three years after they have been filed. As of July 31, 2020, no returns have been selected for examination.

## HAGAN SCHOLARSHIP FOUNDATION

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### Notes to Financial Statements (Continued)

#### 11. SUBSEQUENT EVENTS

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the United States of America. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic and on March 13, 2020 the President of the United States of America declared this a national emergency. It is anticipated that these impacts will continue for some time. The global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Foundation is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The Foundation's financial statements do not include adjustments to fair value that have resulted from these declines.

The Foundation's rental real estate investment was sold on January 15, 2020 for \$40,000,000. The sales proceeds were used to pay the note payable in full.