
HAGAN SCHOLARSHIP FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2021

HAGAN SCHOLARSHIP FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Trustee
Hagan Scholarship Foundation

Opinion

We have audited the financial statements of **Hagan Scholarship Foundation** (the Foundation), which comprise the statement of net assets as of December 31, 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021, 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 Auditors' Responsibility section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibility

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



INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Kiefer Bonfanti & Co. LLP

St. Louis, Missouri
April 1, 2022

HAGAN SCHOLARSHIP FOUNDATION

STATEMENT OF NET ASSETS
DECEMBER 31, 2021

Assets

Cash and cash equivalents	\$	3,483,545
Scholar investment accounts		11,850,023
Construction in process		11,028,523
Other asset		2,064
Investments - common stocks, at fair value		324,585,195
Total Assets	\$	350,949,350

Liabilities and Net Assets

Accounts payable	\$	903,828
Deferred federal excise taxes		1,049,596
Total Liabilities		1,953,424
Net Assets		
Without donor restrictions		335,495,926
Without donor restrictions - trustee designated		13,500,000
Total Net Assets		348,995,926
Total Liabilities and Net Assets	\$	350,949,350

HAGAN SCHOLARSHIP FOUNDATION

STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2021

Support, Revenues, and Gains Without Donor Restrictions	
Contributions	\$ 216,188
Realized and change in unrealized gains on investments	93,041,532
Dividend and interest income	6,261,232
Rental income	50,000
Miscellaneous income	78,519
Total Support, Revenues, and Gains Without Donor Restrictions	99,647,471
Expenses	
Program services	7,515,506
Management and general	1,466,329
Total Expenses	8,981,835
Increase in Net Assets Without Donor Restrictions	90,665,636
Net Assets, Beginning of Year	258,330,290
Net Assets, End of Year	\$ 348,995,926

HAGAN SCHOLARSHIP FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	Program Services	Management and General	Totals
Scholarship expenditures	\$ 7,503,453	-	\$ 7,503,453
Taxes	-	1,360,831	1,360,831
Professional services	-	68,711	68,711
Office supplies	-	18,911	18,911
Other	-	13,105	13,105
Payroll	12,053	-	12,053
Hagan Academy	-	4,771	4,771
Total Expenses	\$ 7,515,506	1,466,329	\$ 8,981,835
Percentage of Total Expenses	83.7%	16.3%	100.0%

HAGAN SCHOLARSHIP FOUNDATION

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

Cash Flows from Operating Activities	
Increase in net assets	\$ 90,665,636
Adjustments:	
Increase in unrealized gains on investments	(35,943,565)
Decrease (increase) in assets	
Scholar investment accounts	(5,951,940)
Other asset	(2,064)
Increase (decrease) in liabilities	
Accounts payable	662,897
Deferred income	-
Deferred excise taxes	359,435
Net Cash Provided by Operating Activities	49,790,399
Cash Flows from Investing Activities	
Net purchases and sales of investments - common stocks	(63,109,282)
Net Cash Used by Investing Activities	(63,109,282)
Net Decrease in Cash and Cash Equivalents	(13,318,883)
Cash and Cash Equivalents, Beginning of Year	16,802,428
Cash and Cash Equivalents, End of Year	\$ 3,483,545
Supplemental Disclosure of Cash Flow Information	
Cash paid for taxes	\$ 326,624

HAGAN SCHOLARSHIP FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

NATURE OF OPERATIONS

Foundation 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 and remote rural public high schools located in counties having more than 50,000 residents.

The Foundation was created in Missouri in 2008 as an irrevocable trust to award and to fund Hagan Scholarships 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

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

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.

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. At December 31, 2021, there was \$13,500,000 of trustee designated net assets related to a set-aside approved by the IRS.

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, whereby the donor has stipulated the funds be maintained in perpetuity. At December 31, 2021 there were no net assets with donor restrictions.

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.

HAGAN SCHOLARSHIP FOUNDATION

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Foundation receives revenue from contributions and receives revenue from leasing land. The lease was classified as an operating lease. Revenue was recognized as rental income became due. Rental payments received in advance, if any, were deferred and classified as liabilities until earned.

The Foundation 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, 2021.

Contributions

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

HAGAN SCHOLARSHIP FOUNDATION

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The expenses that are allocated include the following:

Expense	Method of Allocation
Scholarship expenditures	Direct costs
Taxes	Direct costs
Professional services	Direct costs
Office supplies	Direct costs
Other	Direct costs
Payroll	Time and direct costs
Hagan Academy	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.

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 April 1, 2022, the date which the financial statements were available to be issued, for possible recognition or disclosure.

HAGAN SCHOLARSHIP FOUNDATION

Notes to Financial Statements (Continued)

NOTE 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:

Financial assets at December 31, 2021:	
Cash and cash equivalents	\$ 3,483,545
Scholar investment accounts	11,850,023
Investments	<u>324,585,195</u>
Financial assets available to meet general expenditures over the next twelve months	
	<u>\$ 339,918,763</u>

NOTE 3 CONSTRUCTION IN PROCESS

Subsequent to December 31, 2012, the Foundation acquired real estate in Columbia, Missouri on which it intended to build a college preparatory academy for high-achieving junior and senior-level high school students in a residential setting. As of December 31, 2021, the preparatory academy will no longer be built, but the Foundation will instead use the property to potentially build an office building and auditorium.

NOTE 4 SCHOLAR INVESTMENT ACCOUNTS

The Foundation establishes Scholar Investment Accounts of \$15,000 for each scholarship recipient during the fall semester of their sophomore year of college. 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, up to \$10,000. Recipients will not be responsible for losses, if any, in their account. During 2021, \$987,168 was distributed to scholarship recipients upon graduation.

NOTE 5 INVESTMENTS

At December 31, 2021, 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	\$ 324,585,195
Cost basis	<u>219,625,599</u>
Unrealized Gain	<u>\$ 104,959,596</u>

The cost basis above 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).

NOTE 6 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.
- 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, 2021, the fair values for all investments in common stocks were determined based on Level 1 inputs.

NOTE 7 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)

NOTE 8 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 1.39% of net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income).

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, 2021:

Current	
Federal excise taxes	\$ 1,001,396
Deferred	
Federal excise tax	359,435
Total Tax Expense, Net	\$ 1,360,831
Deferred federal excise taxes on unrealized appreciation at December 31, 2021	\$ 1,049,596

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 April 1, 2022, no returns have been selected for examination.