THE WHITLOCK CO.

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DRURY UNIVERSITY

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED MAY 31, 2019

THE WHITLOCK CO.

CPAs and Consultants

INDEPENDENT AUDITOR'S REPORT

The Trustees
Drury University
Springfield, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of **Drury University** (the University), which comprise the statement of financial position as of May 31, 2019, and the related statements of activities, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University'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 University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on Summarized Comparative Information

We have previously audited **Drury University's** May 31, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 17, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2019, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

THE WHITLOCK CO., LLP

Springfield, Missouri
October 10, 2019

DRURY UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
MAY 31, 2019 and MAY 31, 2018

	All Operating Funds	Endowment Fund	Capital Projects Fund	May 2019 Totals	May 2018 Totals
Assets:					
Cash and cash equivalents - general	$ 193,186	$ 3,283,010	$ 4,613,354	$ 8,089,550	$ 7,693,507
Accounts receivable from students, net of allowance of $1,651,260	2,216,941	-	-	2,216,941	2,112,874
Accounts receivable - other	38,912	-	-	38,912	149,286
Due from other funds	-	-	-	-	-
Prepaid expenses	450,497	-	-	450,497	538,156
Inventories	268,977	-	-	268,977	279,923
Notes receivable	-	-	-	-	13,719
Student loans receivable - federal program	822,695	-	-	822,695	965,912
Pledges receivable	1,652,823	552,880	7,915,930	10,121,633	5,450,651
Investments - real estate	-	4,756,477	-	4,756,477	4,277,985
Investments - campus	(55,000)	55,000	-	-	-
Investments - marketable securities	-	82,000,320	-	82,000,320	83,607,264
Property, plant, and equipment, net	70,364,520	-	194,480	70,559,000	71,352,746
Beneficial interest in health care trust	1,384,171	-	-	1,384,171	1,298,613
Beneficial interest in perpetual trusts	-	8,063,832	-	8,063,832	8,502,476
Total assets	$ 77,337,722	$ 98,711,519	$ 12,723,764	$ 188,773,005	$ 186,243,112
Liabilities:					
Accounts payable	$ 800,313	$ -	$ -	$ 800,313	$ 757,921
Accrued payroll and benefits	1,908,614	-	-	1,908,614	1,716,132
Other accrued expenses and liabilities	196,987	-	-	196,987	184,983
Unearned income and student prepayments	719,884	-	-	719,884	805,325
Line of credit payable	110,000	-	-	110,000	-
Notes payable - property purchases	868,392	-	-	868,392	680,266
Funds held for others	944,119	-	-	944,119	801,719
Salary continuation plans	150,000	-	-	150,000	200,000
Interest rate swap agreement	4,548,072	-	-	4,548,072	3,059,113
Capital leases	4,470,514	-	-	4,470,514	4,290,884
Bonds payable, net	29,293,210	-	-	29,293,210	30,008,055
Liabilities under split-interest agreements	-	2,194,922	-	2,194,922	2,287,986
Federal advances for student loans	1,071,068	-	-	1,071,068	1,097,844
Total liabilities	45,081,173	2,194,922	-	47,276,095	45,890,228
Net assets:					
Without donor restriction	30,072,866	30,836,421	238,132	61,147,419	64,661,550
With donor restriction	2,183,683	65,680,176	12,485,632	80,349,491	75,691,334
Total net assets	32,256,549	96,516,597	12,723,764	141,496,910	140,352,884
Total liabilities and net assets	$ 77,337,722	$ 98,711,519	$ 12,723,764	$ 188,773,005	$ 186,243,112

The accompanying notes are an integral part of these financial statements.

DRURY UNIVERSITY
STATEMENTS OF ACTIVITIES
YEARS ENDED MAY 31, 2019 and MAY 31, 2018

Change in without donor restrictions net assets:	All Operating Funds	Endowment Fund	Capital Projects Fund	May 2019 Total	May 2018 Total
Revenues:					
Tuition and fees	$ 55,140,169	$ -	$ -	$ 55,140,169	$ 51,911,409
Less financial aid	(23,095,056)	-	-	(23,095,056)	(20,356,282)
Tuition and fees - net	32,045,113	-	-	32,045,113	31,555,127
Auxiliary enterprises	8,826,586	-	-	8,826,586	8,978,788
Private gifts and state grants	798,119	4,990	-	803,109	1,990,781
Federal grants and contracts	207,986	-	-	207,986	182,633
Other	1,396,243	-	43,652	1,439,895	1,698,479
Total without donor restrictions net assets	43,274,047	4,990	43,652	43,322,689	44,405,808
Net assets released from restrictions	6,609,940	2,636,638	194,480	9,441,058	7,349,817
Total without donor restrictions revenues and support	49,883,987	2,641,628	238,132	52,763,747	51,755,625
Expenses:					
Instruction and academic support	24,374,868	-	-	24,374,868	23,964,321
Auxiliary enterprises	3,626,524	-	-	3,626,524	3,814,434
Enrollment management	2,733,331	-	-	2,733,331	2,606,850
Student services	3,043,540	-	-	3,043,540	3,066,625
Athletics	5,622,307	-	-	5,622,307	5,412,372
Fund raising	1,769,124	-	-	1,769,124	1,618,789
Institutional support	13,486,428	-	-	13,486,428	12,661,289
Total expenses	54,656,122	-	-	54,656,122	53,144,680
Excess (deficiency) of without donor restrictions net assets revenues over expenses before gains, (losses) and transfers	(4,772,135)	2,641,628	238,132	(1,892,375)	(1,389,055)
Investment income and other gains and (losses):					
Investment income (loss)	1,121	(133,918)	-	(132,797)	304,403
Gain (loss) in value of interest rate swap agreement	(1,488,959)	-	-	(1,488,959)	1,882,713
Change in without donor restrictions net assets before transfers	(6,259,973)	2,507,710	238,132	(3,514,131)	798,061
Transfers:					
Budgeted endowment support	3,231,368	(3,231,368)	-	-	-
Other	(95,153)	95,153	-	-	-
Total changes in without donor restrictions net assets	(3,123,758)	(628,505)	238,132	(3,514,131)	798,061
Change in with donor restriction net assets:					
Revenues:					
Federal grants and contracts	364,686	-	-	364,686	402,003
Private gifts and state grants	4,124,370	1,735,990	7,338,739	13,199,099	10,884,812
Total revenues	4,489,056	1,735,990	7,338,739	13,563,785	11,286,815
Investment income, gains & (losses), transfers:					
Investment income	-	1,242,187	-	1,242,187	6,259,519
Increase (decrease) in value of split interest trusts	-	(706,757)	-	(706,757)	827,232
Change in net asset classification	-	-	-	-	(2,500)
Total Investment income (losses), transfers:	-	535,430	-	535,430	7,084,251
Net assets released from restriction	(6,609,940)	(2,636,638)	(194,480)	(9,441,058)	(7,349,817)
Total changes in with donor restriction net assets	(2,120,884)	(365,218)	7,144,259	4,658,157	11,021,249
Total Increase (Decrease) in Net Assets	(5,244,642)	(993,723)	7,382,391	1,144,026	11,819,310
Net assets at beginning of year:					
Without donor restriction net assets	33,196,624	31,464,926	-	64,661,550	63,863,489
With donor restriction net assets	4,304,567	66,045,394	5,341,373	75,691,334	64,670,085
Total net assets at beginning of year	37,501,191	97,510,320	5,341,373	140,352,884	128,533,574
Net assets at end of year:					
Without donor restrictions net assets	30,072,866	30,836,421	238,132	61,147,419	64,661,550
With donor restrictions net assets	2,183,683	65,680,176	12,485,632	80,349,491	75,691,334
Total net assets at end of year	$ 32,256,549	$ 96,516,597	$ 12,723,764	$ 141,496,910	$ 140,352,884

The accompanying notes are an integral part of these financial statements.

DRURY UNIVERSITY
STATEMENTS OF CASH FLOWS
YEARS ENDED MAY 31, 2019 and 2018

	All Operating Funds	Endowment Fund	Capital Projects Fund	All Funds 2019	All Funds 2018
Cash flows from operating activities:					
Total Increase (Decrease) in Net Assets, per Statement of Activities	$ (5,244,642)	$ (993,723)	$ 7,382,391	$ 1,144,026	$ 11,819,310
Adjustments to reconcile the Total Increase (Decrease) in Net Assets to the net cash consumed by operating activities:					
Add non-cash deductions (and subtract non-cash additions) that were included when calculating the Total Increase (Decrease) in Net Assets:					
Depreciation and amortization of bond issue costs	4,126,995	-	-	4,126,995	4,075,304
Change in fair value of interest rate swap agreement	1,488,959	-	-	1,488,959	(1,882,713)
Net change in the value of liabilities under split-interest agreements	-	(93,064)	-	(93,064)	(317,387)
Net unrealized gain on other investments	-	1,933,580	-	1,933,580	(3,014,545)
Reclassify non-operating income					
Net realized loss (gain) on non-operating investments	-	(2,125,325)	-	(2,125,325)	(2,915,214)
Restricted non-operating contributions	-	(1,735,990)	(7,338,739)	(7,338,739)	(3,286,445)
Endowment and split interest gifts & value changes	-	-	-	-	(827,232)
Decrease (increase) in:					
Accounts receivable from students	(104,067)	-	-	(104,067)	(198,603)
Accounts receivable - other	110,374	-	-	110,374	(101,123)
Prepaid expenses	87,659	-	-	87,659	(113,359)
Inventories	10,946	-	-	10,946	36,884
Student loans outstanding	143,217	-	-	143,217	146,317
Pledges and bequests receivable	(1,512,403)	(552,880)	(2,605,699)	(4,670,982)	(5,173,286)
Beneficial interest in perpetual trusts	-	438,644	-	438,644	(423,426)
Beneficial interest in Drury Healthcare Trust	(85,558)	-	-	(85,558)	(236,358)
Increase (decrease) in:					
Accounts payable	42,392	-	-	42,392	(471,578)
Accrued payroll and benefits	192,482	-	-	192,482	2,313
Other accrued liabilities	12,004	-	-	12,004	23,397
Unearned income and student prepayments	(85,441)	-	-	(85,441)	24,013
Funds held for others	142,400	-	-	142,400	98,774
Salary continuation plans	(50,000)	-	-	(50,000)	(50,000)
Net cash consumed by operating activities	(724,683)	(3,128,758)	(2,562,047)	(4,679,498)	(2,784,957)
Cash flows from investing activities:					
Sale and maturities of investments	-	2,096,472	-	2,096,472	23,899,567
Purchase of investments	-	(776,274)	-	(776,274)	(24,477,990)
Interfund Investment	(85,749)	85,749	-	-	-
Payments received on and forgiveness of notes receivable	13,719	-	-	13,719	8,870
Purchase of property, plant and equipment, net	(3,118,614)	-	(194,480)	(3,313,094)	(1,635,589)
Net cash provided (consumed) by investing activities	(3,190,644)	1,405,947	(194,480)	(1,979,177)	(2,205,142)
Cash flows from financing activities:					
Restricted non-operating contributions	-	1,735,990	7,338,739	7,338,739	3,286,445
Endowment and split-interest gifts and value changes	-	-	-	-	827,232
Proceeds from issuance of operating debt	848,027	-	-	848,027	650,000
Acquisition of capital leases	472,202	-	-	472,202	517,150
Principal payments on bonds	(735,000)	-	-	(735,000)	(700,000)
Principal payments on capital leases	(292,572)	-	-	(292,572)	(248,852)
Principal payments on property purchase notes	(549,902)	-	-	(549,902)	(35,535)
Federal advances for student loans	(26,776)	-	-	(26,776)	17,895
Net cash provided (consumed) by financing activities	(284,021)	1,735,990	7,338,739	7,054,718	4,314,335
Increase (decrease) in cash during the year	(4,199,348)	13,179	4,582,212	396,043	(675,764)
Plus cash at beginning of year	4,392,534	3,269,831	31,142	7,693,507	8,369,271
Cash at end of year	$ 193,186	$ 3,283,010	$ 4,613,354	$ 8,089,550	$ 7,693,507

The accompanying notes are an integral part of these financial statements.

DRURY UNIVERSITY
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED MAY 31, 2019 and MAY 31, 2018

	Instruction & Academic Support	Auxiliary Enterprises	Enrollment Mgmt	Student Services	Athletics	Fund Raising	Institutional Support	May 2019 Total	May 2018 Total
Expenses									
Salaries and benefits	$ 19,017,515	$ 199,303	$ 1,432,489	$ 2,324,281	$ 2,738,765	$ 1,363,756	$ 5,160,427	$ 32,236,536	$ 30,708,240
Supplies for offices and classrooms	241,043	2,344	1,480	13,747	38,602	6,643	164,468	468,327	452,873
Copying, printing, and postage	120,933	124	141,215	24,101	15,536	50,073	48,942	400,924	383,395
Utilities, internet, cable, and telephone	113,351	-	6,557	6,143	24,790	1,854	2,367,014	2,519,709	2,162,912
Rent and lease expense	469,124	84,466	141	-	28,836	-	423,548	1,006,115	910,207
Equipment and repairs and maintenance	111,892	4,064	2,579	73,412	372,308	12,079	188,099	764,433	1,162,075
Memberships, dues, and subscriptions	125,940	568	7,169	4,033	61,986	10,694	137,369	347,759	321,522
Travel, meals, and entertainment	725,141	1,420	160,303	70,983	965,797	75,061	104,677	2,103,382	1,927,211
Marketing and advertising	23,527	-	425,941	10,822	76,941	22,746	750,640	1,310,617	810,111
Professional development and training	114,648	-	21,482	13,956	32,540	4,709	5,073	192,408	150,662
Consultants and professional fees	284,989	-	461,968	162,174	180,073	89,610	349,210	1,528,024	2,119,006
Software licensing and maintenance	54,861	12,502	300	6,443	29,564	78,835	701,776	884,281	773,231
Library acquisitions	265,961	-	-	-	-	-	-	265,961	235,846
Bad debts	-	-	-	-	-	-	254,849	254,849	65,000
Depreciation	1,528,885	1,146,285	-	114,702	690,497	-	646,625	4,126,994	4,075,304
Insurance	849	-	-	169,613	120,000	-	423,906	714,368	732,653
Interest expense	-	-	-	-	-	-	1,593,308	1,593,308	1,583,778
Cost of goods sold	-	2,174,991	-	-	-	-	46,161	2,221,152	2,448,701
Miscellaneous operating expenses	1,176,209	457	71,707	49,130	246,072	53,064	120,336	1,716,975	2,121,953
Total expenses	$ 24,374,868	$ 3,626,524	$ 2,733,331	$ 3,043,540	$ 5,622,307	$ 1,769,124	$ 13,486,428	$ 54,656,122	$ 53,144,680

The accompanying notes are an integral part of these financial statements.

DRURY UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

Years ended May 31, 2019 and 2018

1. Summary of significant accounting policies

This summary of significant accounting policies of Drury University is presented to assist in understanding the University's financial statements. The financial statements and notes are representations of the University's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of financial statements. In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Nature of Organization

Drury University (the University), located in Springfield, Missouri, is a private liberal arts university whose purpose is to train men and women for careers in architecture, business, education, and the arts and sciences. Founded in 1873, the University offers traditional baccalaureate and master's degree programs, as well as continuing adult education. The University also has operations in six Missouri locations: Ava, Cabool, Lebanon, Monett, Rolla and St. Robert. The University is funded by student tuition and fees, private and government gifts and grants, and endowment income. The University participates in the Federal Pell Grant, Federal Work-Study, Federal Supplemental Educational Opportunity Grant, Federal Family Education Loans and Federal Perkins Loan financial aid programs for students.

Basis of accounting

The financial statements of the University have been prepared on the accrual basis of accounting, whereby revenues are reported when earned and expenses are reported when incurred.

Financial statement presentation

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts are maintained on the accrual basis in accordance with the principles of "fund accounting." Accordingly, resources are classified for accounting and reporting purposes into funds established according to their nature and purpose.

Additionally, the University reports information regarding its financial position and activities according to two classes of net assets: with donor restriction and without donor restriction. The classification of net assets into two categories is based on the existence or absence of donor imposed restrictions, stipulations that specify a use for a contributed asset that is more specific than broad limits resulting from the University's basic mission and environment in which it operates.

1. **Summary of significant accounting policies (continued)**

Financial statement presentation (continued)

Net assets with donor restriction are stipulations on contributions related to the usage of the funds, which could include the timing of that usage. Net assets without donor restriction are those derived from tuition and other institutional resources that are not subject to donor-imposed restrictions and income earned on investment donor funds for which the earnings have not been restricted by the donors. Net assets without donor restriction include those designated for specific use by the University's Board of Trustees. When a restriction expires, with donor restriction net assets are reclassified to without donor restriction net assets and reported in the statement of activities as net assets released from restrictions.

The FASB issued *ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, (ASU 2016-14)* in August 2016. *ASU 2016-14* improves the current net asset classification requirements and the information presented in the financial statements and notes about the University's liquidity, financial performance, and cash flows. The new standard is effective for fiscal years beginning after December 15, 2017. The University has implemented the new standard on their combined financial statements for fiscal year-ending May 31, 2019.

Functional classification

Expenses are grouped in the statement of activities according to the purpose for which costs are incurred and further detailed by functional classification in the statement of functional expenses. Depreciation has been allocated among the programs and support activities benefited.

Cash and cash equivalents

For the purpose of the statement of cash flows, the University considers all cash funds and highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalent, except for any held in endowment portfolio or by an external trustee for restricted purposes.

Investments

Real estate - The Garton Farm donation is reported as a real estate investment in the statement of financial position at a carrying value that approximates its fair value based on its most recent (2009) appraised value and known market factors of $4,744,477 along with other minor donated property.

Campus – The amount represents an inter-fund borrowing by the Capital Projects Fund (transferred to Operating Fund) from the Endowment Fund for the construction of the O'Reilly Family Events Center. The University intends to replenish the Endowment Fund upon receipt of donor contributions designated for the construction costs.

Marketable securities - Investments in equity securities with readily determinable fair values and all debt securities are reported in the financial statements at fair value. Annual appreciation or depreciation in fair value is included in investment return reported in the statement of activities. Purchased investments, other than equity securities with readily determinable fair values and debt securities, are reported at cost. Contributed investments are recorded at fair value or appraised value at the date of the gift and are periodically adjusted for significant changes in fair value.

1. **Summary of significant accounting policies (continued)**

Inventories

Inventories are stated at the lower of cost or market, with cost calculated on the first-in, first-out basis as determined by the retail inventory method.

Property, plant and equipment

Property, plant and equipment are carried at cost or, if donated, at the approximate fair value at the date of the donation. Such donations are reported as without donor restriction support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property, plant and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the University reports expirations of donor restrictions when donated assets are placed in service and expenditures are made to acquire assets. Major renewals and improvements that significantly add to the productive capacity or extend the life of an asset are capitalized. Repairs and maintenance that do not improve or extend the life of the respective assets are expensed in the year incurred. Depreciation is calculated in the straight-line method. Depreciation terms are as follows:

	Years
Buildings	40
Building improvements	10 – 40
Furnishings, equipment and vehicles	5 – 7
Computer equipment	3 – 5

Contributions received

Gifts expected to be collected within one year are reported at their net realizable value. Gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The cash flows are discounted using a risk-free interest rate. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Income taxes

The University is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Code, except for net unrelated business income which is subject to federal and state income taxes at statutory rates.

Generally Accepted Accounting Principles (GAAP) prescribe a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as the position the University has taken that the organization is exempt from income taxes.

The University's income tax filings are subject to audit by various taxing authorities. The University's open tax audit periods are 2016 through 2019. In evaluating the University's tax positions, interpretations and tax planning strategies are considered. The University believes its estimates are appropriate based on current facts and circumstances.

1. **Summary of significant accounting policies (continued)**

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates that are particularly susceptible to changes relate to the adequacy of the allowance for bad debts, the net realizable value of contributions receivable, the net present value of investments in real estate, valuation of select investment accounts, and liabilities under split-interest agreements.

Advertising costs

Advertising costs are expensed as incurred.

Reclassifications

Certain accounts relating to the prior year have been reclassified to conform with the current year's presentation. Such reclassification had no effect on net income.

Other significant accounting policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

Recent accounting pronouncements

In August 2018, the FASB issued *ASU 2018-08 Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08* clarifies and improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations (NFPs). The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of the contribution revenue and expense recognition. The University is required to apply the amendments of *ASU 2018-08* beginning with the annual period beginning after December 15, 2018.

In May 2014, the FASB issued *ASU No. 2014-09, Revenue from Contracts with Customers*, (*Topic 606*) which requires an entity to recognize the amount of revenue to which it expects to be

1. **Summary of significant accounting policies** (continued)

Recent accounting pronouncements (continued)

entitled for the transfer of promised goods or services to customers. This guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. *ASU 2015-14* deferred the effective date one year and the new standard is effective for the University beginning with the annual period beginning after December 15, 2018. The standard permits the use of either the retrospective or modified-retrospective transition method. The University is evaluating the effect that *ASU 2014-09* will have on their financial statements.

In February 2016, the FASB issued *ASU 2016-02 Leases (Topic 842). ASU 2016-02* requires recognition of the assets and liabilities that arise from leases. The new standard is effective for fiscal years beginning after December 15, 2019, with a proposed, but not yet approved, ASU issued by FASB on August 15, 2019 to defer the effective date to fiscal years beginning after December 15, 2020. The University is currently evaluating the effect that implementation of the new standard will have on its financial statements.

The FASB issued *ASU 2016-13, Measurement of Credit Losses on Financial Instruments,* in June 2016. Its implementation will result in a new Accounts Receivable loss accounting framework, also known as the current expected credit loss (CECL) model. CECL requires credit losses expected throughout the life of the asset to be recorded at the time of origination. Under the current incurred loss model, losses are recorded when it is probable that a loss even has occurred. The new standard will require significant operational changes, especially in data collection and analysis. The ASU is effective for interim and annual periods beginning December 15, 2020, with a proposed, but not yet approved, ASU issued by FASB on August 15, 2019 to defer the effective date to fiscal years beginning after December 15, 2022, and is expected to increase the allowance upon adoption. The University is assessing the standard and is in the process of reviewing the capability of its systems and processes to support the data collection and retention required to implement the new standard.

2. **Investments**

Investments consist of the following at May 31, 2019:

	Operating funds	Endowment funds	Total investments	Total at cost
Cash equivalents	$ -	$ 3,244,354	$ 3,244,354	$ 3,244,354
Cash value of life insurance	-	497,650	497,650	497,650
Fixed income	-	11,497,781	11,497,781	11,000,000
Domestic equity	-	45,191,842	45,191,842	36,691,116
International equity	-	10,183,352	10,183,352	7,841,326
Real estate, REIT's, RE funds	-	12,422,756	12,422,756	12,486,503
Other investments	-	3,719,062	3,719,062	3,719,062
	$ -	$ 86,756,797	$ 86,756,797	$ 75,480,011

2. Investments (continued)

Investments consist of the following at May 31, 2018:

	Operating funds	Endowment funds	Total investments	Total at cost
Cash equivalents	$ -	$ 1,676,561	$ 1,676,561	$ 1,676,561
Cash value of life insurance	-	493,280	493,280	493,280
Fixed income	-	10,822,132	10,822,132	11,000,000
Domestic equity	-	48,337,338	48,337,338	39,441,254
International equity	-	10,401,675	10,401,675	8,033,164
Real estate, REIT's, RE funds	-	12,123,603	12,123,603	12,187,351
Other investments	-	4,030,659	4,030,659	4,030,659
	$ -	$ 87,885,248	$ 87,885,248	$ 76,862,268

Investments for the years ended May 31, are classified as follows in the Statement of Financial Position:

	2019	2018
Investments – real estate	$ 4,756,477	$ 4,277,985
Investments – marketable securities	82,000,320	83,607,263
	$ 86,756,797	$ 87,885,248

Investment return for the years ended May 31, consisted of:

	2019	2018
Realized gains	$ 1,714,271	$ 4,385,316
Unrealized gains/(losses)	(1,374,712)	1,448,590
Increase (decrease) in value of external perpetual trusts	(438,644)	423,425
Increase (decrease) in value of other split-interest trusts	(268,113)	403,807
Interest and dividends	1,401,102	1,232,323
Management fees	(631,271)	(502,307)
	$ 402,633	$ 7,391,154

Investment return for the years ended May 31, is classified as follows in the Statement of Activities:

	2019	2018
Investment income – without donor restriction	$ (132,797)	$ 1,085,303
Investment income – with donor restriction	1,242,187	5,478,619
Change in value of split-interest agreements – with donor restriction	(706,757)	827,232
	$ 402,633	$ 7,391,154

3. Endowment funds and investment pool

The University maintains endowment funds which are primarily held and managed by outside money managers and are invested to produce income and growth. Income from the endowments is used, pursuant to direction of the donors and Board of Trustees, to provide additional without donor restriction resources to the University or to support donor specified activities. The endowment funds are classified as without donor restriction net assets and with donor restriction net assets depending on the presence or absence of donor stipulations.

The University annually budgets for current operations a percentage of the trailing three-year average of the market value of a defined asset base that includes the pooled investment portfolio. The percentage budgeted for the year ended May 31, 2019 was 4.0%. This amount is reported in the accompanying statement of activities in the "Transfers – Budgeted endowment support" line item.

Administration of the University's endowments is subject to the general provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by the State of Missouri. Under the provisions of this state law, a governing board may appropriate for expenditure, for the uses and purposes for which an endowment fund is established, so much of the endowment fund as is deemed prudent based on standards established by UPMIFA. U.S. generally accepted accounting principles require institutions that are subject to general UPMIFA provisions to report assets of endowment funds as either without donor restriction or with donor restriction net assets based on donor-imposed restrictions until such time the governing body appropriates such assets for expenditure. Gains on endowment assets are reported as increases in without donor restriction net assets or with donor restriction net assets based on the existence of donor-imposed restrictions.

Some of the individual donor restricted endowment funds may have fair values that are less than the amount of the corpus. Corpus includes the aggregate of gift additions to the funds and investment return required to be retained. Such endowments are commonly referred to as "underwater" endowments. The University intends to continue to invest its endowment funds prudently, so that these funds are restored to their historical corpus amounts and subsequently produce positive earnings that can be used consistent with the purpose of the funds.

The term split-interest agreement describes a variety of arrangements under which funds have been donated to the University, some of which are subject to trust documents. These include charitable gift annuities, charitable remainder annuity trusts and unitrusts, charitable lead annuity and unitrusts, and life income agreements.

Funds for which the University is trustee

Funds held and managed by the University pursuant to split-interest agreements generally were made available to the University with the stipulation that it periodically pays to donors and/or their beneficiaries' specific amounts or the earned income from invested assets, or a percentage of the market value of invested assets. Assets received under such agreements are carried at fair value. Estimated liabilities are recorded for required payments to beneficiaries based on the estimated return on the assets during the term of the agreement, the payment obligations, beneficiary life expectancy and a discount rate comparable to the risks involved. The liabilities are adjusted annually for financial statement purposes. Payments of obligations terminate at a time or under circumstances specified in the agreements, and the remaining principal becomes available for University use subject to restrictions, if any, in the agreements with the donors. The net assets of these funds are classified as without donor restriction net assets or with donor restriction net assets depending upon the provisions of the donor agreements.

3. **Endowment funds and investment pool** (continued)

Trusts held by others

The University is the beneficiary of various trusts for which assets are held and managed by third parties. Under the terms of these trusts, the University has the irrevocable right to receive all or a percentage of the income earned on the trust assets in perpetuity or for a specified term and/or has a remainder interest in trust assets. For perpetual trusts, the University has recorded its beneficial interests based on its share of the fair value of assets held in trust, which approximates the present value of income to be received from trust assets. For term trusts, the University has recorded a receivable for its beneficial interests based on the present value of estimated future payments to be received.

4. **Pledges receivable**

Pledges receivable consist of the following unconditional promises to give at May 31:

	2019	2018
Due in less than one year	$ 2,003,530	$ 630,417
Due in one to five years	8,969,393	4,742,125
Due in more than five years	750,000	766,667
	11,722,923	6,139,209
Less: Unamortized discount	1,401,290	688,558
Allowance for doubtful accounts	200,000	-
	1,601,290	688,558
	$ 10,121,633	$ 5,450,651

5. **Property, plant and equipment**

Property, plant and equipment was as follows at May 31:

	2019	2018
Land	$ 7,761,383	$ 5,950,428
Buildings	107,621,790	106,792,156
Equipment	14,590,868	14,253,455
Library holdings	5,854,454	5,721,063
Leasehold Improvements	4,078,518	4,087,656
Construction in progress	214,248	87,076
Property, plant and equipment at cost	140,121,261	136,891,834
Accumulated depreciation	(69,562,261)	(65,539,088)
	$ 70,559,000	$ 71,352,746

6. **Capital leases – future minimum lease payments**

The University leases certain plant and equipment under agreements that are classified as capital leases which contain bargain purchase options at the end of the lease terms. The cost of these assets under capital leases is included in the Statement of Financial Position as property, plant, and equipment and was $6,212,005 and $6,000,448 at May 31, 2019 and 2018, respectively. Accumulated amortization of the leased plant and equipment at May 31, 2019 and May 31, 2018, was $2,168,396 and $1,818,183, respectively. Amortization of assets under capital leases is included in depreciation expense.

The future minimum lease payments required under the capital leases, and the present value of the net minimum lease payments as of May 31, 2019, are as follows:

2020	$ 616,210
2021	616,210
2022	586,823
2023	472,769
2024	444,423
Thereafter	4,644,285
Total minimum lease payments	7,380,720
Less: Amount representing interest expense	(2,910,206)
Present value of net minimum lease payments	$4,470,514

7. **Unearned income and student advances**

Unearned income and student advances represent amounts received from students for future tuition and fees.

8. Bond and notes payable

The bonds and notes payable outstanding consisted of the following at May 31, 2019 and 2018:

	Original issue	Interest rate	Due date of last payment	Balance May 31, 2019	Balance May 31, 2018
Bonds payable:					
Missouri Health and Educational Facilities Authority (MoHEFA) Series 2016	$ 31,180,000	4.33%*	2041	$ 29,745,000	$ 30,480,000
Less: Unamortized bond issue costs				(451,790)	(471,945)
Total bonds payable, net				29,293,210	30,008,055
Notes payable:					
North campus residential property	301,050	6.00%	2019	-	32,749
730 N. Benton Ave.	650,000	4.75%	2033	617,075	647,517
City of Republic	738,027	-**	-**	251,317	-
Line of Credit	2,500,000	5.50%	2020	110,000	-
Total notes payable				978,392	680,266
Total bonds and notes payable				$ 30,271,601	$ 30,688,321

*Blended Rate
**See Below. No established interest rate or maturity date.

The maturities of the bonds and notes payable during the future fiscal years are as follows:

2020	$ 915,556
2021	847,280
2022	894,100
2023	941,024
2024	988,056
Thereafter	26,137,376
Total bond and note payable maturities	$ 30,723,392

Bond and notes payable for the years ended May 31, is classified as follows in the Statement of Financial Position:

	2019	2018
Line of credit payable	$ 110,000	$ -
Notes payable – property purchases	868,392	680,266
Bonds payable, net	29,293,210	30,008,055
	$ 30,271,601	$ 30,688,321

8. **<u>Bond and notes payable</u> (continued)**

The Series 2016 bonds are limited obligations of the Health and Educational Facilities Authority of the State of Missouri (MoHEFA) and are directly placed with a local bank. The tax exempt bonds were issued in connection with a loan to the University by MoHEFA to retire the publicly traded Series 2012 Bonds. The loan agreement also requires the University to maintain a debt reserve fund with a minimum balance of $2,005,519 and to make payments sufficient to retire the bonds as they come due.

The University has entered into two, pay fixed-receive variable interest rate swap agreements to reduce its exposure to changes in the variable interest rate on its Series 2016 Bonds expiring 2017 through 2041. Under the two swap agreements, the University pays a fixed rate of 3.720% on $7,200,000 and 2.726% on $24,130,000 and receives interest payments at a variable rate tied to LIBOR on a notional amount that is equal to the outstanding principal on the bonds. The agreement effectively converts the interest rate on the bonds to a blended rate approximating 4.33%. *FASB Codification Topic 815 Derivatives and Hedging* requires that interest swap agreements be recorded in financial statements at fair value.

At May 31, 2019 market interest rates were lower than 4.33%. As a result, the University has recorded a liability of $4,548,072 as of May 31, 2019 to reflect the fair value of the swap transactions at those dates and changes in fair value on the swap transaction for the year ended May 31, 2019. At year end, the original swap agreement had a fair value of ($379,109) and the second swap agreement had a fair value of ($4,168,963).

The fair value of the swap agreements may fluctuate over a wide range during the term of the bonds. However, because the University intends to hold the bonds until their maturity and complete the corresponding term of the swap agreement, the cash flow effect of the swap agreement should be combined net interest payments equal to approximately 4.33% of the outstanding bonds over the term of the bonds and the agreement. One original swap agreement is through the maturity of the original bonds which is 2024, and the other swap is through 2041 with a one day put option each three years. While this agreement involves counterparty credit exposure, the counterparties for the swap transactions are major financial institutions that meet the University's criteria for financial stability and credit-worthiness.

The $301,050 North campus residential property note was entered into as a result of the purchase of two residences at 410 and 416 E. Calhoun. It is payable in 15 annual payments of principal and interest at 6%, starting in June 2004, and is secured by the underlying property.

The $650,000 730 N. Benton Avenue property note was entered into as a result of the purchase of the lot at 730 N. Benton Avenue. It is payable monthly including both principal and interest, at the Prime Rate with a ceiling of 8.50% and a floor of 4.75%, through April 30, 2033.

The University has a $2,500,000 line of credit with interest at Wall Street Journal Prime, adjusting monthly that requires annual renewal. At May 31, 2019 and 2018, the line had a balance of $110,000 and $0, respectively. The line of credit is unsecured.

8. **Bond and notes payable (continued)**

The City of Republic note is an agreement between the City of Republic and the University to allow the Garton Farms real estate, which is owned by the University, to be developed by the City. There is no interest on the note and there is no repayment or maturity schedule. Amounts are repaid as lots are sold. The University sold one lot and made one payment totaling approximately $487,000 during the year ended May 31, 2019.

Total interest expense for the year ended May 31, 2019 and 2018, was $1,577,986 and $1,572,384, respectively.

9. **Operating leases and other guaranteed minimum payments**

The University leases many of its operating and office facilities for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2022 and provide for renewal options ranging from one to three years. In the normal course of business, it is expected that these leases will be renewed or replaced by leases on other properties. The University has some minor operating leases related to postage machines, copy machines or other small equipment that are not included in this note. Operating lease expenses totaled $604,018 and $595,612 during 2019 and 2018, respectively.

The following is a schedule by year of future minimum rental payments required under the operating lease agreements:

2020	$ 511,385
2021	239,685
2022	173,215
2023	107,450
2024	49,200
Thereafter	205,000
	$ 1,285,935

10. **Net assets with donor restriction**

Net assets with donor restriction are restricted to expend for the following purposes:

Education, programs and scholarships	$ 71,097,328
Buildings, construction and maintenance	9,188,796
Other	63,367
	$ 80,349,491

11. **Benefit plans**

The University provides a defined contribution retirement plan administered by the Teachers Insurance Annuity Association and College Retirement Equities Fund (TIAA-CREF). All employees of the University are eligible to participate in the plan, excluding students or employees who work fewer than 1,000 hours of service in a plan year. Employees may contribute, and the University will match employee contributions up to 6% of the employee's regular salary. Contributions are fully vested. During 2019 and 2018, the University contributed $1,068,084 and $1,007,909, respectively.

11. Benefit plans (continued)

The University also sponsors retirement plans that permit employees to defer a portion of their salary into tax deferred accounts. The University makes no contributions to these retirement plan accounts.

The University is partially self-insured for employee health coverage. The University has a reinsurance policy for individual employee claims in excess of $175,000 annually with an aggregate limit of $3,614,537 annually. The plan is funded by payments from the University as well as from premiums paid by covered employees based on the coverage selected by each employee. Retirees, as defined in the University's handbook and with start dates prior to 2013, are eligible to participate in the University's healthcare plans. For the year ended May 31, 2019, the University had not exceeded the aggregate limit.

Effective June 1, 2004, the University transferred net assets of approximately $900,000 to a separate trust established for the plan to pre-fund future claims. As of May 31, 2019 and 2018, the net balance in the health care trust operating account was $1,384,171 and $1,298,613, respectively.

The University offers tuition remission for its employees and their immediate families based on a years of service schedule. Revenue for these students is accounted for in the "Tuition and fees" line and the tuition remission benefit is accounted for in the "Institutional support" line of the Statement of Activities with the two amounts netting to zero. Tuition Remission related revenue and expense for the year ending May 31, 2019 and 2018 was $1,350,256 and $1,320,821, respectively.

12. Salary continuation plans and deferred compensation

The University has one outstanding salary continuation commitment to a previous president. The first commitment calls for 15 annual payments commencing at age 65. A deferred compensation account exists for the former president of which three payments are still outstanding. The former president was fully vested in all of the above deferred compensation arrangements. A liability for the deferred compensation has been recorded. The University also has one deferred compensation agreement with the current president. The University makes annual contributions to a 457(f) account held by the University's retirement vendor. The current president will become fully vested in the plan in 2020.

13. Insurance

The University is insured as a member of Educational and Institutional Insurance Administrators (EIIA) for general business risks and workers' compensation. Through this membership, the University receives lower insurance premiums in exchange for shared risk in each pool's experience and performance. The EIIA pool maintains excess liability and buffer excess liability insurance policies.

The University also has separate policies for other liability coverages through EIIA. The University's policy coverages are within the industry average ranges.

Subject to certain conditions, the future premiums may be adjusted for claims in excess of pool reserves or for reserves in excess of claims. The University has not recorded an asset or liability for any estimate for premium stabilization reserve amounts allocable to the University by EIIA because such amounts are not known to be material to the University's financial statements.

13. Insurance (continued)

From time to time, the University is involved in routine litigation that arises in the ordinary course of business. There are multiple cases pending, none of which an outcome can be considered probable and none of which are expected to have a material impact on the financial statements.

14. Fair value of financial statements

Generally accepted accounting principles (GAAP) defines fair value as 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. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes 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 active 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

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-sale Securities:

Where quoted market prices are available in an active market, securities are classified within *Level 1* of the valuation hierarchy. *Level 1* securities include exchange traded equities. 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. *Level 2* securities include investments and can include certain hedge funds and real estate investment trusts with quoted prices. In certain cases where *Level 1* or *Level 2* inputs are not available, securities are classified within *Level 3* of the hierarchy and include other less liquid securities.

Notes and loans receivable:

The fair value is estimated based on the current rates offered for notes and loans of the same remaining maturities.

14. Fair value of financial statements (continued)

Pledges and contributions receivable:

The fair value is estimated based on the discounted estimated future cash flows using interest rates currently being offered for loans with similar terms.

Investment securities:

The fair values have been determined using quoted market prices.

Notes and bonds payable:

Fair values for variable rate notes that re-price frequently and for short-term notes are based on carrying amounts. Fair values for notes and bonds payable with principal balances less than $100,000 have not been estimated due to immateriality. The fair values for other notes and bonds payable are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Liabilities under split interest agreements: The fair value is estimated based on the discounted estimated future cash flows using interest rates currently being offered on similar agreements.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the GAAP fair value hierarchy in which the fair value measurements fall at May 31, 2019:

14. Fair value of financial statements (continued)

		Fair Value Measurements Using		
	5/31/19 Fair Value	Quoted Prices In Active Markets for Assets Identical (*Level 1*)	Significant Other Observable Inputs (*Level 2*)	Significant Unobservable Inputs (*Level 3*)
Financial asset:				
Cash and cash equivalents	$ 8,089,550	$ 8,089,550	$ -	$ -
Notes receivable	-	-	-	-
Loans receivable	822,695	-	822,695	-
Pledge receivable	10,121,633	-	10,121,633	-
Investments - real estate	4,756,477	-	-	4,756,477
Investments - marketable securities:				
Cash value of life insurance policies	497,650	-	497,650	-
Investments held in vault	29,507	29,507	-	-
FSC Securities Corporation	36,601	36,601	-	-
State Street Bank and Trust	1,993,962	-	1,993,962	-
Central Bank and Trust	202,920	-	202,920	-
Arvest Bank	7,773,472	7,773,472	-	-
US Bank Custodial	34,463,295	34,463,295	-	-
Colchester Combined Global	3,724,309	3,724,309	-	-
Investments –alternative funds:				
State Street Global Advisors	7,666,278	-	-	7,666,278
Paul Capital Partners	451,671	-	-	451,671
Reserve Capital Partners	1,654,730	-	-	1,654,730
TIFF Private Equity Partners	2,599,215	-	-	2,599,215
Siguler Guff & Company, L.P.	355,274	-	-	355,274
Sanderson Asset Management Ltd	3,603,427	-	-	3,603,427
Aberdeen Asset Management, Inc.	1,718,277	-	-	1,718,277
Wellington Management	2,146,499	-	-	2,146,499
Greenlight Masters Offshore, Ltd.	2,723,922	-	-	2,723,922
Independent Franchise Partners	4,433,426	-	-	4,433,426
Adamas Partners, L.P.	4,469,813	-	-	4,469,813
Contributions receivable from trusts	1,456,071	-	1,456,071	-
Beneficial interest in health care trusts	1,384,171	-	1,384,171	-
Beneficial interest in perpetual trusts	8,063,832	-	8,063,832	-
Financial liability:				
Note payable – property purchases	868,392	-	868,392	-
Line of credit	110,000	-	110,000	-
Bonds payable	29,745,000	-	29,745,000	-
Liabilities under split-interest agreements	2,194,922	-	2,194,922	-
Interest rate swap agreements	4,548,072	-	4,548,072	-

14. Fair value of financial statements (continued)

	5/31/18 Fair Value	Fair Value Measurements Using: Quoted Prices In Active Markets for Assets Identical (*Level 1*)	Significant Other Observable Inputs (*Level 2*)	Significant Unobservable Inputs (*Level 3*)
Financial asset:				
Cash and cash equivalents	$ 7,693,503	$ 7,693,503	$ -	$ -
Notes receivable	13,719	-	13,719	-
Loans receivable	965,912	-	965,912	-
Pledge receivable	5,450,651	-	5,450,651	-
Investments - real estate	4,277,985	-	-	4,277,985
Investments - marketable securities:				
Cash value of life insurance policies	493,280	-	493,280	-
Investments held in vault	3,952	3,952	-	-
FSC Securities Corporation	32,577	32,577	-	-
State Street Bank and Trust	2,118,367	-	2,118,367	-
Central Bank and Trust	219,588	-	219,588	-
Arvest Bank	7,153,155	7,153,155	-	-
US Bank Custodial	36,056,664	36,056,664	-	-
Colchester Combined Global	3,668,977	3,668,977		-
Investments – alternative funds:				
State Street Global Advisors	7,845,618	-	-	7,845,618
Paul Capital Partners	553,892	-	-	553,892
Reserve Capital Partners	1,256,257	-	-	1,256,257
TIFF Private Equity Partners	2,857,018	-	-	2,857,018
Siguler Guff & Company, L.P.	419,877	-	-	419,877
Sanderson Asset Management Ltd	4,037,089	-	-	4,037,089
Aberdeen Asset Management, Inc.	1,555,109	-	-	1,555,109
Wellington Management	2,338,337	-	-	2,338,337
Greenlight Masters Offshore, Ltd.	2,877,367	-	-	2,877,367
Independent Franchise Partners	4,026,249			4,026,249
Adamas Partners, L.P.	4,437,715			4,437,715
Contributions receivable from trusts	1,656,175		1,656,175	
Beneficial interest in health care trusts	1,298,613	-	1,298,613	-
Beneficial interest in perpetual trusts	8,502,476	-	8,502,476	-
Financial liability:				
Note payable – property purchases	680,266	-	680,266	-
Bonds payable	30,480,000	-	30,480,000	-
Liabilities under split-interest agreements	2,287,986	-	2,287,986	-
Interest rate swap agreements	3,059,113	-	3,059,113	-

14. Fair value of financial statements (continued)

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

	Alternatives	Real Estate	Total
Balance, beginning of year	$ 32,204,528	$ 4,277,985	$ 36,482,513
Transfers in and out of Level 3	-	-	-
Total realized and unrealized gains and losses included in changes in net assets	335,459	-	335,459
Purchases, issues, sales, and settlements:			
Purchases	670,000	738,027	1,408,027
Sales	(1,387,455)	(259,535)	(1,646,990)
Balance, end of year	$ 31,822,532	$ 4,756,477	$ 36,579,009
Change in unrealized gains or losses for the period included in changes in net assets for assets held at the end of the reporting period	$ (894,774)	-	$ (894,774)

	Investment Income
Total gains or losses for the period ended May 31, 2019, included in changes in net assets	$ 335,459
Change in unrealized gains or losses for the period ended May 31, 2019, included in changes in net assets for assets held at May 31, 2019	$ (894,774)

Quantitative information about significant unobservable inputs used in the measurement of fair value for Level 3 investments is not developed by the University and is not considered reasonably available. Therefore, the University is not subject to the disclosure requirements under *FASB Codification Topic 820 Fair Value Measurement* regarding quantitative information about significant unobservable inputs used in Level 3 fair value measurement.

Additional disclosures as required per FASB Codification Topic 820 set forth in the following table are certain alternative funds' redemption frequency and redemption notice periods:

	Fair Value	Redemption Frequency	Redemption Notice Period
Sanderson Asset Management Ltd	3,603,427	monthly	30 days
Greenlight Masters Offshore, Ltd.	2,723,922	monthly	105 days

15. Liquidity and availability of resources

The University's financial assets available within one year of the statement of financial date for general expenditure are as follows:

	2019	2018
Financial Assets:		
Cash	$ 8,089,550	$ 7,693,507
Accounts receivable	2,255,853	2,262,160
Investments – marketable securities	82,000,320	83,607,264
Prepaid expenses	450,497	538,156
Pledges receivable	10,121,633	5,450,651
	102,917,853	99,551,738
Less: assets unavailable for general expenditures:		
Cash with contractual or donor restriction	7,114,884	2,506,559
Investments with contractual or donor restriction	72,535,961	73,614,906
Investments held in annuity trust	3,652,954	3,994,131
Pledges receivable with donor restriction	10,121,633	5,450,651
	93,425,432	85,566,247
Financial assets available to meet cash needs for general expenditures within one year	$ 9,492,421	$ 13,985,491

The University's endowment funds consist of donor-restricted endowments. Income from donor restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. As described in Note 3, the endowment has a spending rate of 4 percent.

16. Cash in excess of FDIC-insured limits

The University maintains its cash in bank deposit accounts which, at times may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000.

17. Subsequent events

In preparing these financial statements, University management has evaluated events and transactions for potential recognition or disclosure through October 10, 2019, the date the financial statements were available to be issued.

THE WHITLOCK CO.

CPAs and Consultants

DRURY UNIVERSITY

ENTITY IDENTIFICATION NUMBER 44-0552049

FEDERAL FINANCIAL ASSISTANCE PROGRAMS

YEAR ENDED MAY 31, 2019

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees
Drury University
Springfield, Missouri

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of **Drury University**, which comprise the statement of financial position as of May 31, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Drury University's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Drury University's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Drury University's** internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Drury University's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. This report is intended for the information of the Board of Trustees, management, and the U.S. Department of Education and is not intended to be, and should not be, used by anyone other than these specified parties.

The Whitlock Co., LLP

Springfield, Missouri
October 10, 2019

THE WHITLOCK CO.

CPAs and Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

The Board of Trustees
Drury University
Springfield, Missouri

Report on Compliance for Each Major Federal Program

We have audited **Drury University's** compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of **Drury University's** major federal programs for the year ended May 31, 2019. **Drury University's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Drury University's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Drury University's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **Drury University's** compliance.

Opinion on Each Major Federal Program

In our opinion, **Drury University** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2019.

Report on Internal Control Over Compliance

Management of **Drury University** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Drury University's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Drury University's** internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of **Drury University** as of and for the year ended May 31, 2019, and have issued our report thereon dated October 10, 2019 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

THE WHITLOCK CO, LLP

Springfield, Missouri
October 10, 2019

DRURY UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED MAY 31, 2019

	Federal CFDA Number	Expenditures	New Loan Advances	Passed Through to Subrecipeint
U.S. Department of Education				
Federal Pell Grant Program	84.063	$ 6,435,332	$ -	$ -
Administrative Cost Allowance	84.063A	8,365	-	-
Federal Supplemental Education Opportunity Grants	84.007	235,723	-	-
Federal Work-Study Program	84.033	197,474	-	-
Federal Direct Student Loans	84.268	-	13,540,707	-
Federal Teacher Education Assistance for College and Higher Education Grant	84.379	65,922	-	-
Total Title IV Student Financial Assistance		6,942,816	13,540,707	-
The CAMP Somos Program	84.149A	364,686	-	-
Total U.S. Department of Education Awards		7,307,502	13,540,707	-
Total expenditures of federal awards		$ 7,307,502	$ 13,540,707	$ -

DRURY UNIVERSITY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED MAY 31, 2019

1. Basis of presentation

The schedule of expenditures of federal awards includes the current year federal grant activity of **Drury University** and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Under these standards, Federal Pell Grant Program awards are reported as expenditures, whereas under U.S. generally accepted accounting principles, they are not reported in the University's Statement of Activities as expenses or financial aid. New loan advances under the Federal Family Educational Loan Program represent the amount of such loans processed by the University for the year and are not reportable as transactions in the University's financial statements under U.S. generally accepted accounting principles. Other amounts presented in this schedule as expenditures may differ from amounts presented in, or used in the preparation of, the basic financial statements, although such differences are not material.

2. Loans outstanding

Drury University had the following loan balances outstanding at May 31, 2019.

	Federal CFDA Number	Amount Outstanding
Federal Perkins Loan Program	84.038	$ 822,695

DRURY UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED MAY 31, 2019

Section I - Summary of auditor's results

1. Type of report issued on the auditee's financial statements: Unmodified
2. No material weaknesses were identified. No reportable conditions that are considered to be material weaknesses were identified.
3. The audit did not disclose any noncompliance which is material to the financial statements.
4. Type of report issued on compliance for major federal programs: Unmodified
5. The audit disclosed no findings required to be reported by the Uniform Guidance.
6. The auditee's only major program is Title IV Student Financial Assistance (CFDA #84.007, 84.268, 84.033, 84.063, and 84.379) administered by the U.S. Department of Education.
7. The dollar threshold used to determine above program as Type A program was federal awards expended during the audit period exceeding $750,000 but less than $10 million.
8. The auditee did not qualify as a low-risk auditee under the Uniform Guidance.

Section II - Findings relating to the financial statements which are required to be reported in accordance with GAGAS

We noted no reportable findings from the current year audit.

Section III - Findings and questioned costs for Federal awards

There were no federal award findings from the current year audit.

DRURY UNIVERSITY

AUDITOR'S COMMENTS ON AUDIT RESOLUTION MATTERS RELATING TO PRIOR YEAR FINDINGS

YEAR ENDED MAY 31, 2018

2018-01 R2T4 calculations

Statement of condition: When reviewing the Return of Title IV Funds (R2T4), it was noted that three of the students that had withdrawn from school before the add/drop period and were refunded their tuition costs, but the R2T4s were not completed until over 100 days from the student's withdrawal date.

Criteria: When a student withdraws from classes, the University is required to calculate and remit payment to federal agencies any amount of unearned federal aid assuming the student participated in less than 60% of the days in the semester.

Effect of condition: The amount of refund, if any, was not timely in being returned to the federal programs from which is was received.

Cause of condition: There was a lack of oversight in the Student Financial Aid office that allowed these students to withdraw from the University and not get communicated to the correct person that completes the R2T4 forms.

Recommendation: We recommend the financial aid office review the processes related to R2T4 and determine if controls are needing to be updated to ensure the University stays in compliance.

Management response: Since these students dropped all coursework and were not charged, they did not show up in the list of students who had withdrawn, so no R2T4 was processed. When we discovered these students should have had an R2T4 processed, we did so even though it was outside the required window. We have modified our report to include all students who drop all coursework and are not charged, so that we can accurately process R2T4s. Note that we used this process in the spring semester and there were no findings for similar students in the spring semester.