

Texas A&M University 12TH Man Foundation
Independent Auditor's Report and Financial Statements
June 30, 2019 and 2018



Texas A&M University 12TH Man Foundation
June 30, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Texas A&M University 12TH Man Foundation
College Station, Texas

We have audited the accompanying financial statements of Texas A&M University 12TH Man Foundation, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas A&M University 12TH Man Foundation as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 of the financial statements, Texas A&M University 12TH Man Foundation adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, in 2019. Our opinion is not modified with respect to this matter.

BKD, LLP

Houston, Texas
December 13, 2019

Texas A&M University 12TH Man Foundation
Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 73,519,658	\$ 24,241,281
Contributions receivable, net	10,186,415	11,647,091
Investments	-	66,680,227
Prepays and other	344,336	191,904
Total current assets	84,050,409	102,760,503
Other Assets		
Property and equipment, net	3,355,148	3,106,374
Contributions receivable, net	30,725,546	32,138,919
Memberships	32,000	32,000
Investments	118,742,443	115,080,257
Total other assets	152,855,137	150,357,550
Total assets	\$ 236,905,546	\$ 253,118,053
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accruals	\$ 2,617,700	\$ 3,051,038
Deferred revenue	2,399,599	1,674,672
Total current liabilities	5,017,299	4,725,710
Net Assets		
Without donor restrictions:		
Undesignated	30,454,412	32,125,686
Board-designated	22,215,073	13,895,500
Total without donor restrictions	52,669,485	46,021,186
With donor restrictions	179,218,762	202,371,157
Total net assets	231,888,247	248,392,343
Total liabilities and net assets	\$ 236,905,546	\$ 253,118,053

Texas A&M University 12TH Man Foundation
Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 40,779,541	\$ 18,828,240	\$ 59,607,781
Investment income	834,686	5,758,819	6,593,505
Other revenue	3,099,923	267,484	3,367,407
Net assets released from restrictions	47,374,874	(47,374,874)	-
	<u>92,089,024</u>	<u>(22,520,331)</u>	<u>69,568,693</u>
Expenses			
Distributions to or for Texas A&M University:			
Facilities	56,191,937	-	56,191,937
Annual	18,470,001	-	18,470,001
Contributor costs	2,515,885	-	2,515,885
	<u>77,177,823</u>	<u>-</u>	<u>77,177,823</u>
Total program services			
Fund raising	4,441,445	-	4,441,445
General and administrative	3,787,146	-	3,787,146
	<u>8,228,591</u>	<u>-</u>	<u>8,228,591</u>
Total support services			
Loss on uncollectible contributions receivable	34,311	632,064	666,375
	<u>85,440,725</u>	<u>632,064</u>	<u>86,072,789</u>
Total expenses and losses			
Change in Net Assets	6,648,299	(23,152,395)	(16,504,096)
Net Assets, Beginning of Year	<u>46,021,186</u>	<u>202,371,157</u>	<u>248,392,343</u>
Net Assets, End of Year	<u>\$ 52,669,485</u>	<u>\$ 179,218,762</u>	<u>\$ 231,888,247</u>

Texas A&M University 12TH Man Foundation
Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 41,642,784	\$ 12,969,104	\$ 54,611,888
Investment income	817,782	10,690,897	11,508,679
Other revenue	1,957,357	274,734	2,232,091
Net assets released from restrictions	32,150,422	(32,150,422)	-
	<u>76,568,345</u>	<u>(8,215,687)</u>	<u>68,352,658</u>
Total revenues, gains and other support			
Expenses			
Distributions to or for Texas A&M			
University:			
Facilities	39,110,180	-	39,110,180
Annual	36,215,270	-	36,215,270
Contributor costs	2,340,093	-	2,340,093
	<u>77,665,543</u>	<u>-</u>	<u>77,665,543</u>
Total program services			
Fund raising	4,998,582	-	4,998,582
General and administrative	3,625,484	-	3,625,484
	<u>8,624,066</u>	<u>-</u>	<u>8,624,066</u>
Total support services			
Loss on uncollectible contributions receivable	-	77,499	77,499
	<u>86,289,609</u>	<u>77,499</u>	<u>86,367,108</u>
Total expenses and losses			
Change in Net Assets	(9,721,264)	(8,293,186)	(18,014,450)
Net Assets, Beginning of Year, As Previously Reported	<u>55,740,344</u>	<u>210,666,449</u>	<u>266,406,793</u>
Reclassification of Underwater Endowments Related to Adoption of ASU 2016-14	2,106	(2,106)	-
Net Assets, Beginning of Year, As Adjusted	<u>55,742,450</u>	<u>210,664,343</u>	<u>266,406,793</u>
Net Assets, End of Year	<u>\$ 46,021,186</u>	<u>\$ 202,371,157</u>	<u>\$ 248,392,343</u>

Texas A&M University 12TH Man Foundation
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services				Support Services			
	Distributions to or for Texas		Contributor	Total Program	Fund Raising	General and	Total Support	Total
	A&M University	Annual						
Facilities	Annual	Costs	Services	Fund Raising	Administrative	Services	Total	
Salaries	\$ 1,277,235	\$ -	\$ 409,971	\$ 1,687,206	\$ 1,433,755	\$ 1,114,474	\$ 2,548,229	\$ 4,235,435
Employer payroll taxes	94,048	-	30,193	124,241	101,883	65,544	167,427	291,668
Employee benefits	230,532	-	55,430	285,962	256,353	187,275	443,628	729,590
Contract services	60,686	-	2,981	63,667	31,778	351,314	383,092	446,759
Office supplies	14,675	-	2,256	16,931	3,843	23,072	26,915	43,846
Printing, advertising, publications and postage	503,959	-	22,880	526,839	279,189	15,676	294,865	821,704
Rentals	4,221	-	30,401	34,622	4,480	54,056	58,536	93,158
Insurance	-	-	-	-	-	147,030	147,030	147,030
Repairs and maintenance	1,395	-	350	1,745	-	2,994	2,994	4,739
Credit card and ticketing processing fees	562,613	-	80	562,693	644,787	195	644,982	1,207,675
Dues and subscriptions	4,827	-	795	5,622	16,303	8,123	24,426	30,048
Meals, entertainment and travel	58,229	-	111,730	169,959	150,004	83,787	233,791	403,750
Information technology	39,640	-	16,861	56,501	32,407	1,088,126	1,120,533	1,177,034
Catering and special events	-	-	474,910	474,910	173,443	26,565	200,008	674,918
Donor expenses	82,161	-	1,343,219	1,425,380	234,100	27,667	261,767	1,687,147
Transfers to athletics	53,047,084	18,470,001	-	71,517,085	-	-	-	71,517,085
Depreciation	134,201	-	-	134,201	69,570	187,805	257,375	391,576
Letterman's	-	-	-	-	-	253,945	253,945	253,945
Loss on fixed asset disposal	75,042	-	-	75,042	8,575	5,143	13,718	88,760
Other	1,389	-	13,828	15,217	1,000,975	144,355	1,145,330	1,160,547
	<u>\$ 56,191,937</u>	<u>\$ 18,470,001</u>	<u>\$ 2,515,885</u>	<u>\$ 77,177,823</u>	<u>\$ 4,441,445</u>	<u>\$ 3,787,146</u>	<u>\$ 8,228,591</u>	<u>\$ 85,406,414</u>

Texas A&M University 12TH Man Foundation
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ (16,504,096)	\$ (18,014,450)
Items not requiring (providing) operating activities cash flows:		
Depreciation	391,576	705,670
Noncash contributions received	(2,162,522)	(13,642,492)
Net realized and unrealized gains on investments	(6,585,706)	(11,731,617)
Contributions received restricted for long-term investment	(3,228,826)	(1,321,704)
Loss on disposal of property and equipment	88,760	1,936,022
Changes in:		
Contributions receivable	4,235,982	23,461,344
Prepays and other assets	(152,432)	519,869
Accounts payable	(433,338)	(176,018)
Deferred revenue	724,927	(684,509)
	<u>(23,625,675)</u>	<u>(18,947,885)</u>
Investing Activities		
Purchases of investments	(3,365,000)	(24,787,079)
Proceeds from disposition of investments	75,281,290	48,420,126
Purchase of property and equipment	(729,110)	(1,575,004)
Principal cash of pooled funds held by Texas A&M Foundation reinvested	<u>(150,021)</u>	<u>(150,008)</u>
	<u>71,037,159</u>	<u>21,908,035</u>
Financing Activity		
Proceeds from contributions restricted for long-term investment	<u>1,866,893</u>	<u>1,799,571</u>
	<u>1,866,893</u>	<u>1,799,571</u>
Increase in Cash and Cash Equivalents	49,278,377	4,759,721
Cash and Cash Equivalents, Beginning of Year	<u>24,241,281</u>	<u>19,481,560</u>
Cash and Cash Equivalents, End of Year	<u>\$ 73,519,658</u>	<u>\$ 24,241,281</u>

Texas A&M University 12TH Man Foundation

Notes to Financial Statements

June 30, 2019 and 2018

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

Nature of Operations

Texas A&M University 12TH Man Foundation (the Foundation) is a not-for-profit organization that was formed to operate exclusively for charitable purposes and make expenditures to or for the support or benefit of Texas A&M University (the University), including providing scholarships to men and women who attend the University.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, money market accounts and a certificate of deposit. The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2019, the Foundation's cash accounts exceeded federally insured limits by approximately \$72,750,000.

Classification of Gifts

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, net assets with donor restrictions are reclassified net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor, and for which the restriction is met in the same time period, are recorded as net assets with donor restrictions and then released from restriction.

The Foundation reports gifts of land, buildings and equipment as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support.

Unconditional promises to give with payments due in future periods are reported as net assets with donor restrictions.

Texas A&M University 12TH Man Foundation

Notes to Financial Statements

June 30, 2019 and 2018

Contributions

The Foundation periodically solicits gifts from its donors in support of University sponsored athletics. Such gifts are used to fund facilities, scholarships and programs to accomplish its mission.

Contributions are provided to the Foundation either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows, including an allowance for uncollectible contributions estimated by management.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Restricted contributions are recorded in the with donor restrictions net asset class. If the restrictions are met during the year, the amounts are reflected in assets released from restriction on the statements of activities.

Commitments

The Foundation has made commitments over the years to the University in order to fund large athletic projects, particularly those for major building and infrastructure projects supporting University athletics. Funding for these projects is sourced from donor contributions. While these commitments do not represent legally binding obligations of the Foundation and are, therefore, not reported on the balance sheets of the Foundation, the Foundation does plan to pay these commitments as they become due. Please refer to Note 10 of these audited financial statements for additional details on these commitments.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investments in Texas A&M Foundation pooled funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments. Investment income

Texas A&M University 12TH Man Foundation

Notes to Financial Statements

June 30, 2019 and 2018

consists of dividends, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, and is net of investment fees.

Investment income that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

All gains and losses arising from the sale, collection or other disposition of investments are accounted for on a specific identification basis calculated as of the trade date in the fund that owned such assets.

The Foundation maintains pooled funds for its endowment. Investment income and realized and unrealized gains and losses from securities in the pooled funds are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled funds, as adjusted for additions to or deductions from those accounts.

Investments in Pooled Funds Held by Texas A&M Foundation

The Foundation has established an investment account at the Texas A&M Foundation through purchase into the Texas A&M Foundation investment pool. The account holds the assets of the Foundation placed in the investment pool including any additions, proceeds, income and profits, and losses and withdrawals.

The Foundation may terminate the agreement by either full and immediate termination of the account or systematic withdrawal of the account over an extended period. Full and immediate termination is subject to a fee of 10 percent of the account's assets. The account may be terminated without penalty by annual withdrawals over a period of five years (20 percent, 25 percent, 33 1/3 percent, 50 percent and 100 percent) of the remaining account balance in each consecutive year.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. It is the Foundation's policy to capitalize property and equipment over \$5,000. Furniture, fixtures and equipment are being depreciated over estimated useful lives ranging from five to ten years using the straight-line method. The cost of maintenance and repairs is charged to expense as incurred. When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized as income in the statements of activities for the year.

Texas A&M University 12TH Man Foundation
Notes to Financial Statements
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The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Furniture and equipment	5-10 years
Leasehold improvements	39 years
Vehicles	5 years

Long-lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2019 or 2018.

Deferred Revenue

Revenue from fees for future years' game day parking and road game programs are deferred and recognized over the periods to which the fees relate.

Gifts in Kind

The Foundation occupies office space in the University's buildings. The value of the University office space and services has not been included in the financial statements, as this space is state property and restricted as to its use; therefore, there is no rental value to record.

Endowments

The Foundation records declines in fair values in these donor-restricted endowment funds by reducing net assets with donor restrictions to the extent there is net appreciation on related funds with donor-imposed restrictions. Any remaining decline in fair value in excess of amounts classified as net assets with donor restrictions is recorded as a reduction in net assets without donor restrictions.

Net Assets

The two net asset categories incorporated in the Foundation's financial statements are described as follows.

Texas A&M University 12TH Man Foundation

Notes to Financial Statements

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Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for athletic reserves.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Unrealized and realized gains and losses and dividends and interest income from investing in income-producing assets may be included in any of these net asset classifications depending on donor restrictions.

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in the U.S. Federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on the various statistical or allocation methods.

Subsequent Events

Subsequent events have been evaluated through December 13, 2019, which is the date the financial statements were available to be issued.

Reclassification

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. These reclassifications had no effect on net earnings.

Revision

Endowment fund balances as of June 30, 2017 and June 30, 2018, were revised due to an immaterial error correction resulting in an increase of \$3,084,724 and \$4,564,624, respectively, from the previously disclosed amounts. This correction had no effect on the prior year's net assets with or without donor restriction, or the change in net assets.

Texas A&M University 12TH Man Foundation

Notes to Financial Statements

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General Litigation

The Foundation is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Foundation. Events could occur that would change this estimate materially in the near term.

Note 2: Change in Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. In 2019, the Foundation implemented ASU 2016-14. The changes are summarized as follows:

Statements of Financial Position

The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class. This is a change from the previously required classification as unrestricted net assets which resulted in a reclassification of \$2,106 from net assets with donor restrictions to net assets without donor restrictions as of July 1, 2017.

Statements of Activities

Net investment income is shown net of external investment expenses. Disclosure of the expenses netted against net investment income is no longer required.

Statement of Functional Expenses

This statement presents expenses by both nature and function in one location. Upon adoption of ASU 2016-14, the Foundation adjusted the classification of expenses among program services in 2018 to conform to 2019 classifications. Amounts previously reported as *Annual* and *Loss on Fixed Asset Disposal* of are now reported with *Facilities*.

Notes to the Financial Statements

Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.

Texas A&M University 12TH Man Foundation

Notes to Financial Statements

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The discount rate used to calculate the present value component of contributions receivable for each of the years ended June 30, 2019 and 2018, was 4.0 and 3.5 percent, respectively. The rate is based on a risk-free rate of return adjusted for variations and timing of cash flows, uncertainties in cash flows and the length of time over which cash flows are to occur.

Note 4: Investments

The Foundation's investments at June 30 consist of:

	2019	2018
Asset-backed securities	\$ -	\$ 63,300,123
Mortgage-backed securities	-	3,380,104
Investment in pooled funds held by Texas A&M Foundation	118,742,443	115,080,257
	\$ 118,742,443	\$ 181,760,484
Investments:		
Current	\$ -	\$ 66,680,227
Long-term	118,742,443	115,080,257
	\$ 118,742,443	\$ 181,760,484

Total investment return is comprised of the following:

	2019	2018
Gain and investment earnings on investment in pooled funds held by Texas A&M Foundation	\$ 5,610,628	\$ 9,960,060
Interest and dividends	902,691	1,170,710
Gain on asset-backed and mortgage-backed securities	80,186	377,909
	\$ 6,593,505	\$ 11,508,679

Investment in pooled funds held by Texas A&M Foundation represent assets held and managed by the Texas A&M Foundation pursuant to an agency agreement dated July 1, 2003. Effective July 1, 2003, the Foundation's ownership interests were assigned through unitization to the various participants based on the market value of the securities or cash placed in the pool by each participant. The Foundation's transactions within the pool, the current market value is used to determine the

Texas A&M University 12TH Man Foundation
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number of units allocated to additional assets placed in the pool and to value withdrawals from the pool. Investment income and realized gains and losses and any unrealized gains and losses are allocated equitably based on the number of units assigned to each participant.

For full and immediate redemption of the Foundation's investment in the pooled funds, the Foundation must provide a 90-day written notice to the Texas A&M Foundation upon which the Texas A&M Foundation will provide an accounting of the investment in the pooled funds and a breakdown between marketable and non-marketable assets back to the Foundation within 30 days after the 90-day notice period. No unfunded commitments existed at year-end.

Within 30 days of the accounting, the Texas A&M Foundation will redeem the Foundation's investment at NAV for marketable assets and at 90 percent to 100 percent of NAV for non-marketable assets, as determined by the Board of the Texas A&M Foundation. The Foundation may redeem the investment without penalty if the funds are withdrawn over a period of five years.

At June 30, 2019 and 2018, the pool's major investment types include:

	<u>2019</u>	<u>2018</u>
Domestic equities	19%	18%
International equities	19%	22%
Global equities	14%	12%
Public real estate and commodities	16%	7%
Private real estate and hard assets	0%	9%
Private equities	13%	11%
Alternative marketable investments	7%	5%
Alternative fixed income	2%	0%
Domestic fixed income	4%	6%
International fixed income	3%	4%
Cash and cash equivalents	3%	6%
	<u>100%</u>	<u>100%</u>

The pool's participant's market value is determined by the market value of the securities held and the number of units allocated to the Foundation.

The Foundation, through the Texas A&M Foundation, invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Texas A&M University 12TH Man Foundation
Notes to Financial Statements
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Note 5: Property and Equipment, Net

Property and equipment at June 30 consists of the following:

	2019	2018
Furniture and equipment	\$ 2,072,817	\$ 1,737,182
Leasehold improvements	3,466,655	3,466,655
Vehicles	167,712	153,485
	<u>5,707,184</u>	<u>5,357,322</u>
Accumulated depreciation	<u>(2,352,036)</u>	<u>(2,250,948)</u>
	<u>\$ 3,355,148</u>	<u>\$ 3,106,374</u>

The Foundation's depreciation expense for the years ended June 30, 2019 and 2018, was \$391,576 and \$705,670, respectively.

Note 6: Net Assets

Net Assets With Donor Restrictions

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

	2019	2018
Subject to expenditure for specified purpose:		
12TH Man Foundation Funds	\$ 162,775	\$ 110,290
Athletic Department Funds	6,720,804	3,336,633
Athletic Endowment Funds	5,663,554	6,232,186
Athletic Facility Funds	66,942,130	94,215,878
Support Groups	3,747,255	4,678,258
	<u>83,236,518</u>	<u>108,573,245</u>
Subject to passage of time:		
Future years annual funds	<u>4,795,667</u>	<u>6,333,559</u>
Subject to endowment spending policy or appropriation accumulated gains, endowments and investment in perpetuity:		
12TH Man Foundation Funds	66,144,090	66,175,326
1922 Scholarship Funds	9,309,119	5,966,722
Athletic Department Funds	6,372,932	6,112,810
Athletic Endowment Funds	8,122,906	8,061,611
Athletic Facility Funds	15,827	14,009
Support Groups	1,221,703	1,133,875
	<u>91,186,577</u>	<u>87,464,353</u>
	<u>\$ 179,218,762</u>	<u>\$ 202,371,157</u>

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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2019	2018
Expiration of time restrictions	\$ 2,702,272	\$ 584,011
Satisfaction of purpose restrictions:		
12TH Man Foundation Funds	-	66,877
Athletic Department Funds	50,000	-
Athletic Endowment Funds	700,875	111,407
Athletic Facility Funds	38,269,818	27,403,453
Support Groups	2,752,999	1,234,647
Restricted purpose spending-rate distribution and appropriations:		
12TH Man Foundation Funds	2,460,811	2,421,126
1922 Scholarship Funds	21,324	153,934
Athletic Endowment Funds	416,775	174,967
	\$ 47,374,874	\$ 32,150,422

Note 7: Endowment

The Foundation's endowment consists of approximately 47 individual funds established for a variety of purposes. The endowment includes donor-restricted endowments. As required by GAAP, net assets associated with endowment funds, including any funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation's Board has interpreted the State of Texas Prudent Management of Institutional Funds Act (TPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TPMIFA. In accordance with TPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

1. Duration and preservation of the fund

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2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

Changes in endowment net assets for the years ended June 30 were as follows:

	June 30, 2019
	With Donor Restrictions
As of June 30, 2018	\$ 87,464,353
Investment return:	
Net appreciation (realized and unrealized)	3,481,651
Contributions	3,228,826
Bad debt expense	(89,343)
Appropriation of endowment assets for expenditures	(2,898,910)
As of June 30, 2019	\$ 91,186,577
	June 30, 2018
	With Donor Restrictions
As of July 1, 2017	\$ 82,097,272
Investment return:	
Net appreciation (realized and unrealized)	7,260,454
Contributions	1,321,704
Change in donor intent	(400,739)
Bad debt expense	(64,311)
Appropriation of endowment assets for expenditures	(2,750,027)
As of June 30, 2018	\$ 87,464,353

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Amounts of donor-restricted endowment funds at June 30, 2019 and 2018, consisted of:

	With Donor Restrictions	
	2019	2018
Portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or TPMIFA	\$ 50,786,286	\$ 47,646,803
Portion of perpetual endowment funds subject to a restriction under TPMIFA	40,400,291	39,817,550
	\$ 91,186,577	\$ 87,464,353

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or TPMIFA. In accordance with GAAP, deficiencies of this nature are reported in assets with donor restrictions and aggregated \$89 and \$346 as of June 30, 2019 and 2018, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new donor restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The Foundation through an agreement with the Texas A&M Foundation has elected to invest its endowment completely in the Long-term Investment Pool (Pool) of the Texas A&M Foundation. Accordingly, the return objectives and risk parameters and strategies employed for achieving objectives of the Texas A&M Foundation have been adopted by the Foundation.

The Texas A&M Foundation has adopted investment and spending policies, as approved by the Board, for the Pool that attempt to provide a predictable stream of funding to programs supported by the Pool while seeking to maintain the purchasing power of the Pool. The long-term investment objective of the Pool is to earn an average annual real (inflation-adjusted) return at least equal to the payout rate, net of all investment fees while assuming a moderate amount of risk. The payout rate will vary with the market environment, but will generally be between 4 percent and 5 percent. This should be achieved over rolling five- to ten-year periods on a total return basis. The Pool includes endowed assets, non-endowed assets and agency funds. Actual returns in any given year may vary considerably from this amount.

For the fiscal years 2019 and 2018, the Texas A&M Foundation appropriated 5.0 percent for distribution from the Pool's average fair value over the prior 20 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. The Board continues to follow the adopted revised policy to reduce distributions by 0.1 percent annually until the distribution is 5.0 percent. In establishing this policy, the Board considered the long-term expected return on its

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endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an annual rate that is at least equal to the rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 8: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019, comprise the following:

Unrestricted cash and cash equivalents	\$ 58,328,595
Accounts receivable	31,242
Net contributions receivable for general operations due in one year or less	411,723
Budgeted annual collections from seat renewals due in one year or less	40,550,000
Board designated athletic reserves due in one year or less	(22,215,073)
Athletic commitments due in one year or less	<u>(44,441,564)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 32,664,923</u>

The Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Foundation strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments in compliance with the Foundation's investment policy. The Foundation provides its cash management group with a funding schedule in order to maximize earning potential around the Foundation's cash needs.

The table above reflects the Foundation's financial assets as of June 30, 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. In addition, the Foundation has made commitments over the years to the University to fund large athletic projects. Although these commitments are not legally binding obligations, the Foundation does plan to pay

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these commitments as they become due. The Foundation has shown budgeted cash and cash equivalent collections for annual seat renewals for the following fiscal year to demonstrate how it plans to meet its commitment for these athletic projects due within one year of financial position date.

Note 9: Natural Classification of Expenses

The Foundation's natural classification of expenses for the year ended June 30, 2018, are:

Salaries	\$ 3,896,172
Employer payroll taxes	254,566
Employee benefits	801,643
Contract services	424,529
Office supplies	42,740
Printing, advertising, publications and postage	785,210
Rentals	180,327
Insurance	115,236
Repairs and maintenance	29,600
Credit card and ticketing processing fees	1,680,509
Dues and subscriptions	36,669
Meals, entertainment, training and travel	291,066
Information technology	921,615
Catering and special events	1,046,627
Donor expenses	2,537,622
Transfers to athletics	69,398,904
Depreciation expense	705,670
Letterman's	264,461
Loss on fixed asset disposal	1,936,022
Other	940,421
	<u> </u>
	<u><u>\$ 86,289,609</u></u>

Note 10: Commitments

The Foundation has outstanding commitments to the University for facilities and ongoing program needs of the athletic department. While these commitments do not represent legally binding obligations of the Foundation, it does plan to pay the commitments as they become due. A summary of the outstanding commitments, including interest, as of June 30, 2019, is as follows.

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Annual transfers (through year ended June 30, 2028)	\$ 139,909,177
Zone Club	2,729,756
Bright Complex	5,341,225
Blue Bell Park at Olsen Field	6,972,250
Kyle Field redevelopment	388,558,682
Outdoor track and softball	15,640,752
Swimming and diving upgrades	5,500,000
Women's basketball	2,379,563
Davis PDC upgrades	6,856,000
	\$ 573,887,405

Funding for the Foundation's commitments will be sourced from cash, investments, investment returns, contributions receivable and from future donor contributions. As of June 30, 2019, the Foundation held approximately \$231.9 million of net assets and all that are not specifically restricted to other uses are available to fund these future commitments. The following provides additional information for each of the commitments summarized above.

Annual Transfers

During the year ended June 30, 2015, the Annual Transfer was set at \$10,600,000 with a plan of increasing it at a rate of 2 percent per year. Additionally, with the last payment for the Zone being in 2020, the Annual Transfer will be increased by \$3 million in 2021. The Annual Transfer commitment in the chart above is for the 9-year period of 2020 through 2028.

Zone Club

As noted above, a portion of the funds were to be used to cover the University's debt service on construction costs of the Bernard C. Richardson Zone (Zone) at Kyle Field.

The remaining future debt service amounts to be funded by the annual Zone payment above are as follows:

	Principal	Interest	Total
2020	\$ 2,620,533	\$ 109,223	\$ 2,729,756

The Foundation has agreed to \$3,050,000 annual contribution, as noted in the annual transfers, to cover their commitments, and also to maintain a bond indebtedness reserve of \$3,050,000 in its cash and investment accounts. The Foundation has committed to make payments on this project through 2020.

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Kyle Field South End Zone Athletic Complex (Bright Complex)

In the February 1, 2002, Athletic Complex Funding Agreement (an addendum to the 1998 agreement) between the Foundation and the University, the Foundation agreed to provide financial support for the construction of the Kyle Field South End Zone Athletic Complex (Athletic Complex) by contributing funds to cover debt service of the University debt issued for construction costs up to \$25,000,000, plus related interest and actual debt issuance costs less any funds transferred to the University prior to the issuance of any indebtedness.

On June 1, 2005, the Board of Regents of the University System issued Revenue Financing System Bonds in the total amount of \$434,650,000, of which the Foundation committed to pay \$11,443,309 of the total debt service related to construction costs of the Athletic Complex, to be paid in annual installments of \$890,000 annually for the period of 2005-2025. The Foundation also agreed to maintain a debt service reserve account equal to total debt service due within the next year in its cash or cash equivalents. The Foundation's capital campaign gifts restricted to the Athletics Complex and unrestricted capital campaign gifts received by the Foundation, not exceeding the maximum obligation, are pledged as collateral under the agreement.

The remaining future debt service amounts to be funded by the annual commitments above are as follows:

	Principal	Interest	Total
2020	\$ 681,725	\$ 208,216	\$ 889,941
2021	709,104	180,947	890,051
2022	738,307	151,696	890,003
2023	769,336	121,241	890,577
2024	807,666	82,774	890,440
2025	847,822	42,391	890,213
	\$ 4,553,960	\$ 787,265	\$ 5,341,225

Blue Bell Park at Olsen Field

The Foundation agreed to assist the University by contributing funds to cover debt service on University debt issued for construction costs associated with the renovation of Olsen Field. The Foundation has committed to contributions of \$288,284 annually for the period of 2014-2043.

The remaining future debt service amounts to be funded by the annual commitments above are as follows.

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	Principal	Interest	Total
2020	\$ 95,000	\$ 194,000	\$ 289,000
2021	100,000	189,250	289,250
2022	105,000	184,250	289,250
2023	110,000	179,000	289,000
2024	115,000	173,500	288,500
2025-2029	670,000	779,500	1,449,500
2030-2034	860,000	595,750	1,455,750
2035-2039	1,100,000	359,800	1,459,800
2040-2043	1,055,000	107,200	1,162,200
	\$ 4,210,000	\$ 2,762,250	\$ 6,972,250

Redevelopment of Kyle Field

Although no formal agreements have been signed, the Foundation agreed to cover any shortfalls in the license and sales revenue required to fund the debt service and debt coverage ratio of the seat license bonds totaling up to \$231,850,000. The Foundation has committed to annual contributions of \$16,200,000 for the period 2015-2043 to cover the amount of the bonds plus accrued interest.

The related remaining future debt service amounts funded by the annual commitments above are as follows:

	Principal	Interest	Total
2020	\$ 5,065,000	\$ 11,096,797	\$ 16,161,797
2021	5,315,000	10,843,547	16,158,547
2022	5,580,000	10,577,797	16,157,797
2023	5,860,000	10,298,797	16,158,797
2024	6,155,000	10,005,797	16,160,797
2025-2029	35,755,000	45,093,987	80,848,987
2030-2034	45,540,000	35,497,361	81,037,361
2035-2039	57,840,000	23,202,832	81,042,832
2040-2043	57,510,000	7,321,767	64,831,767
	\$ 224,620,000	\$ 163,938,682	\$ 388,558,682

The Foundation also agreed to cover any shortfalls in the gift revenue required to fund the debt service and debt service coverage up to \$170,000,000 for the redevelopment of Kyle Field. This commitment was fulfilled in 2019.

Outdoor Track and Softball Stadium

The Foundation has committed to pay \$25,000,000 toward the Outdoor Track and Softball projects over a five-year period with the first 3 payments of \$5,000,000 being paid in August 2016, 2017 and 2018, leaving a balance of \$10,000,000.

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The Foundation committed to send the University all funds already collected for these two projects and make a best effort to raise additional funds to cover the projects up to a total of \$68,940,000, less the \$25,000,000 above and the \$25,000,000 being bonded by the Athletic Department. The Foundation has received contribution pledges to cover the \$18,940,000 and has transferred funds in the amount of \$13,299,248 to the University, leaving a balance of \$5,640,752.

Swimming and Diving Upgrades

The Foundation has committed to pay \$5,700,000 toward the \$7,700,000 Swimming and Diving project. The Athletic Department has agreed to fund \$2,000,000. As of June 30, 2019, \$700,000 has been sent to the University, \$3,294,398 is cash on hand and \$1,539,355 is pledges receivable. Subsequent to the end of the year bids were received for the project and the Foundation has been asked to raise an additional \$500,000. Payments to the University will be made upon request.

Women's Basketball

The Foundation has committed to pay \$2,500,000 toward the Women's Basketball project. As of June 30, 2019, there was \$1,025,372 in available cash and \$1,877,677 in pledges receivable. Payments to the University will be made upon request.

Davis Player Development Center Upgrades

The Foundation has committed to pay \$7,000,000 towards the Davis Player Development Center project. As of June 30, 2019, \$144,000 has been sent to the University, \$2,415,636 is cash on hand and \$4,164,280 is pledges receivable. The Foundation needs to secure approximately \$275,000 in new pledges to fully fund the new project.

Automobile Leases

The Foundation leases certain automobiles on behalf of the University. Lease payments on behalf of the University are treated as contributions in the year of payment. Minimum payments required under these lease agreements are as follows:

2020	\$	71,659
2021		<u>17,940</u>
	\$	<u><u>89,599</u></u>

Note 11: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value.

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- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2019 and 2018:

	Fair Value Measurements				Investments Measured at NAV (A)
	Total	Level 1	Level 2	Level 3	
June 30, 2019:					
Recurring basis:					
Assets:					
Cash equivalents	\$ 73,519,658	\$ 73,519,658	\$ -	\$ -	\$ -
Asset-backed securities	-	-	-	-	-
Mortgage-backed securities	-	-	-	-	-
Long-term investment pool:					
Investment in pooled funds held by Texas A&M Foundation	118,742,443	-	-	-	118,742,443
June 30, 2018:					
Recurring basis:					
Assets:					
Cash equivalents	24,241,281	24,241,281	-	-	-
Asset-backed securities	50,727,770	50,727,770	-	-	-
Mortgage-backed securities	3,380,104	3,380,104	-	-	-
Long-term investment pool:					
Investment in pooled funds held by Texas A&M Foundation	115,080,257	-	-	-	115,080,257

Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended June 30, 2019 and 2018.

Investments

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

There were no assets or liabilities measured at fair value on a nonrecurring basis.

Long-term Investment Pool

Investment in Pooled Funds Held by Texas A&M Foundation: To satisfy its long-term rate-of-return objectives, Texas A&M Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Investments in certain entities measured at fair value using the net asset value per share as a practical expedient consist of the following:

	2019			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Period Notice
Investment in pooled funds held by Texas A&M Foundation	\$ 118,742,443	\$ -	Annually	90 days
	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Period Notice
Investment in pooled funds held by Texas A&M Foundation	\$ 115,080,257	\$ -	Annually	90 days

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Note 12: Employee Benefit Plan

The Foundation has a qualified defined contribution pension plan (the plan) covering substantially all its employees. The Board of Directors annually determines the amount, if any, of the Foundation's contributions to the plan. Pension expense was \$426,077 and \$548,727 for 2019 and 2018, respectively.

The Foundation provides a retirement annuity program covering substantially all its employees. Contributions to the plan are funded by voluntary salary reductions of participating employees.

Note 13: Related-party Transactions

Currently, the University provides office space, utilities and janitorial services to the Foundation for its administrative offices. The Foundation is responsible for any leasehold improvements to the offices.

Note 14: Significant Estimates and Concentrations

GAAP requires disclosure of certain significant estimates and current vulnerabilities, due to certain concentrations. Those matters include the following:

Contributions Receivable

Two and three donors were responsible for approximately 28 percent and 42 percent of all contributions receivable as of June 30, 2019 and 2018, respectively.

Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such change could materially affect the amounts reported in the accompanying statements of financial position.

As of June 30, 2019 and 2018, the Foundation had 100 percent and 59 percent, respectively, of its investments in the pooled funds held by Texas A&M Foundation.