



2011-2012  
**FINANCIAL REPORT**

Missouri State University  
Foundation





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## About Missouri State University

Missouri State University is a public, comprehensive university system with a mission in public affairs with an enrollment of more than 23,000, whose purpose is to develop educated persons while guided by three overarching and enduring commitments to student learning, inclusive excellence and institutional impact. The University's identity is distinguished by its statewide mission in public affairs, requiring a campus-wide commitment to foster competence and responsibility in the common vocation of citizenship. The academic experience is grounded in a general education curriculum which draws heavily from the liberal arts and sciences. This foundation provides the basis for mastery of disciplinary and professional studies. It also provides essential forums in which students develop the capacity to make well-informed, independent critical judgments about the cultures, values, and institutions in society.

The task of developing educated persons obligates the University to expand the store of human understanding through research, scholarship and creative endeavor, and drawing from that store of understanding, to provide service to the communities that support it. In all of its programs, the University uses the most effective methods of discovering and imparting knowledge and the appropriate use of technology in support of these activities.

The Missouri State University campuses are structured to address the special needs of the urban and rural populations they serve. Missouri State University-Springfield is a selective admissions, graduate level teaching and research institution. Missouri State University-West Plains is an open admissions campus serving seven counties in south central Missouri. Missouri State University-Mountain Grove serves Missouri's fruit industry through operation of the State Fruit Experiment Station. The Extended Campus provides anytime, anyplace learning opportunities through telecourses, Internet-based instruction and through its interactive video network (BearNet). The University also operates various other special facilities, such as the Darr Agricultural Center in southwest Springfield, the Jordan Valley Innovation Center in downtown Springfield, the Bull Shoals Field Station near Forsyth, Baker's Acres and Observatory near Marshfield, the Missouri State University Graduate Center in Joplin, and a branch campus at Liaoning Normal University in Dalian, China. In addition, Missouri State has the operations and program offerings of one entire academic department, its Department of Defense and Strategic Studies, located near Washington, D.C., in Fairfax, Virginia.



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## Independent Accountants' Report

Board of Trustees  
Missouri State University Foundation  
Springfield, Missouri

We have audited the accompanying statement of financial position of Missouri State University Foundation as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's June 30, 2011 financial statements and in our report dated October 7, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Missouri State University Foundation as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*BKD, LLP*

October 11, 2012



**Missouri State University Foundation**  
**Statement of Financial Position**  
**June 30, 2012 (with comparative totals for June 30, 2011)**

**Assets**

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 18,842,226	\$ 19,649,849
Accounts receivable, net	38,916	8,500
Investments	61,205,156	59,502,404
Investments held in trust	821,161	913,497
Investments held for resale	123,126	123,126
Pledges receivable, net	37,583,181	34,973,317
Real estate held for resale	196,382	211,382
Cash value of life insurance	439,860	452,449
Construction in progress	-	202,454
Real estate and equipment, at cost	3,421,945	2,991,817
Accumulated depreciation	<u>(2,101,964)</u>	<u>(2,001,663)</u>
Total assets	<u>\$ 120,569,989</u>	<u>\$ 117,027,132</u>

**Liabilities and Net Assets**

Accounts payable and accrued expenses	\$ 213,444	\$ 659,940
Pledges payable	940,146	2,726,340
Annuity obligations	289,000	329,927
Funds managed by Missouri State University	<u>199,762</u>	<u>199,762</u>
Total liabilities	<u>1,642,352</u>	<u>3,915,969</u>

**Net Assets**

Unrestricted	6,798,124	4,808,349
Temporarily restricted	70,485,391	68,147,267
Permanently restricted	<u>41,644,122</u>	<u>40,155,547</u>
Total net assets	<u>118,927,637</u>	<u>113,111,163</u>
Total liabilities and net assets	<u>\$ 120,569,989</u>	<u>\$ 117,027,132</u>

**Missouri State University Foundation**  
**Statement of Activities**  
**Year Ended June 30, 2012 (with comparative totals for June 30, 2011)**

	2012			2011	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Revenues, Gains and Other Support</b>					
Contributions	\$ 308,665	\$ 21,296,663	\$ 1,545,436	\$ 23,150,764	\$ 14,850,702
Investment return	489,619	(1,415,324)	-	(925,705)	9,961,130
Gain (loss) on assets held in trust	-	590	(58,995)	(58,405)	(101,802)
Life insurance cash value increase (decrease)	(1,879)	(10,710)	-	(12,589)	5,888
Rental income	680,023	-	-	680,023	669,253
Other income	33,205	219,594	62,090	314,889	353,002
Net assets released from restrictions	17,563,305	(17,563,305)	-	-	-
Total revenues, gains and other support	<u>19,072,938</u>	<u>2,527,508</u>	<u>1,548,531</u>	<u>23,148,977</u>	<u>25,738,173</u>
<b>Expenses</b>					
Instruction and academic program support	5,808,309	-	-	5,808,309	2,407,562
Student services	3,325,286	-	-	3,325,286	3,874,414
Institutional support	499,490	-	-	499,490	445,541
Scholarships	1,813,282	-	-	1,813,282	1,599,021
Broadcast services	1,367,393	-	-	1,367,393	1,403,636
Rental expenses	518,145	-	-	518,145	496,563
Capital projects - Missouri State University	1,256,466	-	-	1,256,466	3,537,789
JQH Arena debt service	1,930,374	-	-	1,930,374	1,937,014
Costs of direct benefits to donors	35,220	-	-	35,220	30,111
Fundraising	511,956	-	-	511,956	602,760
Total expenses	<u>17,065,921</u>	<u>-</u>	<u>-</u>	<u>17,065,921</u>	<u>16,334,411</u>
Actuarial (gain) loss on trust and annuity obligations	17,242	(2,828)	15,607	30,021	28,627
Provision for uncollectible pledges	-	177,212	44,349	221,561	244,142
Losses on real estate held for resale	-	-	-	-	57,000
Reduction in value of real estate held for resale	-	15,000	-	15,000	32,000
Total expenses and losses	<u>17,083,163</u>	<u>189,384</u>	<u>59,956</u>	<u>17,332,503</u>	<u>16,696,180</u>
<b>Change in Net Assets</b>	1,989,775	2,338,124	1,488,575	5,816,474	9,041,993
<b>Net Assets, Beginning of Year</b>	<u>4,808,349</u>	<u>68,147,267</u>	<u>40,155,547</u>	<u>113,111,163</u>	<u>104,069,170</u>
<b>Net Assets, End of Year</b>	<u>\$ 6,798,124</u>	<u>\$ 70,485,391</u>	<u>\$ 41,644,122</u>	<u>\$ 118,927,637</u>	<u>\$ 113,111,163</u>

See Notes to Financial Statements

**Missouri State University Foundation**  
**Statement of Cash Flows**  
**Year Ended June 30, 2012 (with comparative totals for June 30, 2011)**

	<u>2012</u>	<u>2011</u>
<b>Operating Activities</b>		
Change in net assets	\$ 5,816,474	\$ 9,041,993
Items not requiring (providing) operating activities cash flows		
Depreciation	100,301	78,795
Reduction in value of real estate held for resale	15,000	32,000
Losses on real estate held for resale	-	57,000
Net realized and unrealized (gains) losses on investments	1,122,741	(9,615,566)
Net realized and unrealized losses on investments held in trust	58,405	101,802
Actuarial loss on trust and annuity obligations	30,021	28,627
Non-cash gifts	(665,093)	(440,334)
(Gain) loss on sale of securities	(3,986)	3,490
Changes in		
Accounts receivable	(30,416)	33,564
Pledges receivable	(2,609,864)	2,102,605
Accounts payable and accrued expenses	(446,496)	405,207
Pledges payable	(1,786,194)	904,340
Annuity obligations	(70,948)	(61,245)
Contributions restricted for long-term investment	(1,649,932)	(4,084,828)
Other income restricted for long-term investment	(62,090)	(80,961)
Net cash used in operating activities	<u>(182,077)</u>	<u>(1,493,511)</u>
<b>Investing Activities</b>		
Proceeds from sale of investments	6,746,719	14,091,165
Purchase of investments	(9,572,212)	(17,686,980)
Proceeds from sale of investments held in trust	33,931	34,190
Proceeds from sale of real estate held for resale	-	60,000
Proceeds from sale of securities	669,079	436,844
Proceeds from sale of life insurance policies cashed	-	4,576
Purchases of real estate and equipment	(227,674)	-
Construction in progress acquisitions	-	(58,434)
Decrease (increase) in cash value of life insurance	12,589	(5,888)
Net cash used in investing activities	<u>(2,337,568)</u>	<u>(3,124,527)</u>
<b>Financing Activities</b>		
Proceeds from contributions restricted for investment in endowment	1,649,932	4,084,828
Other income restricted for reinvestment	62,090	80,961
Net cash provided by financing activities	<u>1,712,022</u>	<u>4,165,789</u>
<b>Decrease in Cash and Cash Equivalents</b>	(807,623)	(452,249)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>19,649,849</u>	<u>20,102,098</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 18,842,226</u>	<u>\$ 19,649,849</u>
<b>Supplemental Cash Flows Information</b>		
Accounts payable incurred for construction in progress	\$ -	\$ 119,270

See Notes to Financial Statements



# Missouri State University Foundation

## Notes to Financial Statements

### June 30, 2012

#### Note 1: Summary of Significant Accounting Principles

##### ***Purpose of the Foundation***

The purpose of the Missouri State University Foundation, previously Southwest Missouri State University Foundation, is to be the legal vehicle to receive, manage and distribute all private gifts, restricted and unrestricted, for the benefit of Missouri State University, or its successors, or any institution of higher learning with which it may merge. The Foundation provides funds from private sources to a variety of University departments and programs.

The Board of Trustees, which governs the Foundation, is separate and distinct from the Board of Governors, the governing body of the University.

The Foundation's primary source of revenue is from contributions and their investment return.

##### ***Description of Net Assets***

The net assets of the Foundation are reported in the following categories:

- Unrestricted Net Assets—net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations, and are expendable for any purpose.
- Temporarily Restricted Net Assets—net assets which result from donor-imposed restrictions that permit the Foundation to expend the donated assets as specified, and are satisfied by either the passage of time or by actions of the Foundation.
- Permanently Restricted Net Assets—net assets which result from donor-imposed restrictions that such assets be maintained permanently, but permit the Foundation to expend part of the income and gains derived from the donated assets depending on donor restrictions.

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

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2012, cash equivalents consisted primarily of money market accounts with brokers.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all non-interest bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At June 30, 2012, the Foundation had no amounts in excess of federally insured limits.

# Missouri State University Foundation

## Notes to Financial Statements

### June 30, 2012

#### ***Contributions and Pledges Receivable***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets to unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional 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.

#### ***In-Kind Contributions***

In addition to receiving cash contributions, the Foundation receives in-kind contributions of services, software licensing, books, livestock and equipment from various donors. It is the policy of the Foundation to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the year ended June 30, 2012, \$4,973,424 was received in in-kind contributions.

#### ***Real Estate and Equipment***

Buildings, improvements and equipment are recorded at cost and depreciated over the estimated useful life of each asset. Annual depreciation is computed using the straight-line method. Real estate and equipment includes tenant remodeling improvements of \$74,695 and equipment of \$442,208.

#### ***Valuation of Gifts of Property***

Gifts of real and personal property are reported at their estimated fair value as of the date the property is received. Fair value is determined either by a staff member of the University with expertise in the valuation of the particular property, or by appropriate documentation furnished by the donor.

# Missouri State University Foundation

## Notes to Financial Statements

### June 30, 2012

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

The Foundation is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code; however, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2009.

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

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

#### ***Comparative Amounts***

The financial statements include certain prior year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

#### ***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program and support services categories based on various methods.

#### ***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

#### ***Transfers Between Fair Value Hierarchy Levels***

Transfers in and out of Level 1 (quoted market prices); Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period beginning date.



# Missouri State University Foundation

## Notes to Financial Statements

### June 30, 2012

#### Note 2: Pooled Investments

Funds treated as endowment by the Foundation are managed as a pooled investment fund. This pool includes funds from the unrestricted, temporarily restricted and permanently restricted net asset classes. The various subsidiary accounts purchase shares in the investment pool when additions are received. The investment pool is operated on a unit market basis. The following schedule summarizes data related to the investment pool for the year ended June 30, 2012:

Pooled investments at market value	\$ 61,029,559
Number of pool shares	274,677
Market value per pool share	\$ 222
Fiscal year return	(1.7%)
Interest and dividend earnings	\$ 83,089
Net gains (losses)	\$ (1,127,364)

#### Note 3: Endowment

The Foundation's endowment consists of approximately 932 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body has interpreted the State of Missouri Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (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 temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

## Missouri State University Foundation

### Notes to Financial Statements

#### June 30, 2012

The composition of net assets by type of endowment fund at June 30, 2012 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (191,530)	\$ 18,490,299	\$ 41,105,624	\$ 59,404,393
Board-designated endowment funds	2,858,124	-	-	2,858,124
<b>Total endowment funds</b>	<b>\$ 2,666,594</b>	<b>\$ 18,490,299</b>	<b>\$ 41,105,624</b>	<b>\$ 62,262,517</b>

Changes in endowment net assets for the year ended June 30, 2012 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,952,236	\$ 18,733,386	\$ 39,542,447	\$ 61,228,069
Investment return				
Investment income	-	542,526	-	542,526
Net depreciation	(323,335)	(803,712)	-	(1,127,047)
<b>Total investment return</b>	<b>(323,335)</b>	<b>(261,186)</b>	<b>-</b>	<b>(584,521)</b>
Contributions	-	-	1,501,087	1,501,087
Other income	32,706	8,462	62,090	103,258
Appropriation of endowment assets for expenditure	-	(3,246,185)	-	(3,246,185)
Other additions	4,987	3,255,822	-	3,260,809
<b>Endowment net assets, end of year</b>	<b>\$ 2,666,594</b>	<b>\$ 18,490,299</b>	<b>\$ 41,105,624</b>	<b>\$ 62,262,517</b>

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 SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated approximately \$192,000 at June 30, 2012. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

# Missouri State University Foundation

## Notes to Financial Statements

### June 30, 2012

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that exceed the endowment's financial requirement over time, while assuming a moderate level of investment risk. The Foundation expects its endowment funds to provide an average rate of return of approximately 9.7% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year 5.7% of its endowment fund's average fair value over the prior 36 months through the year end preceding the year in which expenditure is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

#### **Note 4: Investments and Investment Return**

Investments in equity securities and debt securities are carried at fair value. All other investments are valued at estimated fair value. The estimated fair value of investments in hedge funds, where a readily determinable market price is not available, has been estimated using the net asset value per share of investments. Investment income and gains that are restricted by donor stipulation are initially included in temporarily restricted net assets. When the restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets. Other investment income, gains and losses are reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

While the Foundation does not invest directly in derivative securities, it does, through investment holdings with various money managers, indirectly hold these securities. The Foundation has significant investments in marketable securities, which are subject to price fluctuation. These instruments could potentially subject the Foundation to significant concentrations of market risk. This risk is controlled through a diversified portfolio and regular monitoring procedures.



## Missouri State University Foundation

### Notes to Financial Statements

#### June 30, 2012

Investments are summarized as follows:

Accrued income	\$ 71,785
Money market accounts	555,028
U.S. equity mutual funds	15,179,612
Non-U.S. equity mutual funds	15,163,477
U.S. fixed income mutual funds	15,044,354
Non-U.S. fixed income mutual funds	1,973,028
Other mutual funds	7,297,291
Real estate funds	1,168,797
Hedge funds	3,666,381
Private equity	1,081,903
Other	3,500
	\$ 61,205,156

Investment return consists of the following:

Investment income	\$ 197,036
Net realized and unrealized losses on investments reported at fair value	(1,122,741)
	\$ (925,705)

Investments held in trust are deposited with U.S. Bank Institutional Trust, Benjamin F. Edwards & Co., and Bank of America, N.A. or are in municipal bonds and other investments.

Investment expenses incurred for the year ended June 30, 2012, totaled \$113,150.

#### **Note 5: Related Party Transactions**

The Foundation receives administrative support from the University without charge. The value of these services is not recorded as revenues or expenditures by the Foundation. The University pays the Foundation for space occupied by various University departments within the Kenneth E. Meyer Alumni Center. Rental payments for the year ended June 30, 2012, were \$451,945 and are included in rental income. Pledges payable, accounts payable and accrued expenses include \$1,048,401 due the University at June 30, 2012.

# Missouri State University Foundation

## Notes to Financial Statements

### June 30, 2012

In 1982 the University's Board of Governors authorized the transfer of its endowment fund of \$199,762 to the Foundation for management purposes. This balance is shown on the Foundation's statement of financial position as funds managed for Missouri State University. All investment earnings from these funds have been recorded in the accounting records of the Foundation. All endowment additions since 1982, including gifts, student fees designated for endowment, and other income, have been recorded in the Foundation accounting records.

#### **Note 6: Other Assets**

##### ***Investments Held for Resale***

Investments held for resale consist of tangible personal property and publicly traded common stock which are carried at the fair value as of the date received. These investments totaled \$123,126 at June 30, 2012.

##### ***Real Estate Held for Resale***

Real estate held for resale consists of property donated to the Foundation, which is carried at the fair value as of the date of the gift, unless the fair value has declined subsequent to that date. This property totaled \$196,382 at June 30, 2012.

#### **Note 7: Split-Interest Agreements, Annuities and Trusts**

The Foundation is one beneficiary of a perpetual split-interest trust which is held by others. The fair value of the Foundation interest in the trust at June 30, 2012, is \$95,698. The income received by the Foundation from this trust was \$5,722 for this fiscal year. The Foundation also is the beneficiary of four charitable remainder trusts with a fair value at June 30, 2012, of \$725,463.

The Foundation has entered into annuity agreements with various individuals whereby the annuitants have given certain assets to the Foundation on the condition that the Foundation pay stipulated amounts periodically to the annuitants during their lifetime. Any assets remaining upon the death of the annuitants become the property of the Foundation and available for its use, subject to the restrictions of the annuity agreement, if any. The Foundation recognized \$5,502 in contribution revenue under these agreements during the year ended June 30, 2012.

The annuity obligation at June 30, 2012, of \$289,000 was calculated over the terms of the agreements based on the rates for government securities with similar maturities.

## Missouri State University Foundation

### Notes to Financial Statements

#### June 30, 2012

#### Note 8: Pledges Receivable

Pledges receivable are a credit risk to the extent donors choose not to complete their pledge payments. Discount rates ranged from .3% to 3.3% for the year ended 2012. Pledges receivable consist of the following unconditional promises to give at June 30, 2012:

Due within one year	\$ 5,170,016
Due in one to five years	16,918,671
Due in more than five years	<u>30,597,907</u>
	<u>52,686,594</u>
Less: Allowance for doubtful accounts	309,854
Unamortized discount	<u>14,793,559</u>
	<u>15,103,413</u>
	<u><u>\$ 37,583,181</u></u>

Pledges are included in the following net asset classification:

Temporarily Restricted	\$ 36,278,286
Permanently Restricted	<u>1,304,895</u>
	<u><u>\$ 37,583,181</u></u>

#### Note 9: Leases

Noncancelable leases for space in the Kenneth E. Meyer Alumni Center expire in various years through 2015. Several of these leases contain renewal options for periods ranging from one to three years. Future minimum lease income at June 30, 2012, is as follows: 2013-\$564,721; 2014-\$49,304; 2015-\$2,025.

**Missouri State University Foundation**  
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**Note 10: Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2012, are available for the following purposes:

Any purpose, time restricted	\$ 27,576
Instruction and academic program support	14,685,989
Student services	2,758,888
Institutional support	35,297,448
Scholarships	15,241,782
Broadcast services	2,473,708
	<u>70,485,391</u>
	<u>\$ 70,485,391</u>

**Note 11: Permanently Restricted Net Assets**

Permanently restricted net assets at June 30, 2012, are restricted to investments in perpetuity, the revenue from which is expendable to support:

Instruction and academic program support	\$ 13,327,465
Student services	712,746
Institutional support	1,454,927
Scholarships	26,066,683
Broadcast services	82,301
	<u>41,644,122</u>
	<u>\$ 41,644,122</u>

**Note 12: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Approximately 66% of the net pledge receivable balance outstanding at June 30, 2012, was due from one contributor.

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

# Missouri State University Foundation

## Notes to Financial Statements

### June 30, 2012

#### **Current Economic Conditions**

The current protracted economic decline continues to present some not-for-profit organizations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, declines in contributions and constraints on liquidity. The financial statements have been prepared using values and information currently available to the Foundation.

Current economic conditions have made it difficult for some donors to continue to contribute to not-for-profit organizations. A significant decline in contribution revenue could have an adverse impact on the Foundation's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for contributions receivable that could negatively impact the Foundation's ability to maintain sufficient liquidity.

#### **Note 13: Disclosures About Fair Value of Assets and Liabilities**

ASC Topic 820, *Fair Value Measurements*, 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. Topic 820 also specifies 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 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 and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.



# Missouri State University Foundation

## Notes to Financial Statements

### June 30, 2012

#### **Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds, equity securities and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include mutual funds, hedge funds, and municipal bonds. Inputs used to value Level 2 securities include interest rates for similar debt securities and Treasury obligations with similar maturities and net asset values provided by funds as a practical expedient. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include mutual funds, real estate funds and private equity funds. The net asset value (or its equivalent) provided by the fund is utilized, as a practical expedient, to determine fair value of these Level 3 investments. The funds are classified as Level 3 if they may not be redeemable in the short-term. More information about each investment valued using net asset value as a practical expedient is as follows:

**Mutual funds** – This category is an investment in a fund that is a “feeder” fund in a “master-feeder” structure whereby the fund invests substantially all of its assets in the master fund. The master fund pursues its investment objectives by allocating its capital among various portfolio managers through investments in collective investment vehicles and individually managed accounts. The investee funds may engage in the trading of equity and debt securities of U.S. and non U.S. corporations, U.S. government securities, non U.S government securities, futures contracts, options, options on futures, other derivatives including swaps, forward contracts, currencies and physical commodities, partnership interests, money market instruments and derivatives on securities. Investments can be redeemed with 100 days written notice as of the last business day of any calendar year unless redemption requests represent more than 25% of the fund’s net assets in which case the requests would be honored pro rata.

**Hedge funds** – This category includes investment in a hedge fund whose objective is to generate consistent long-term capital appreciation with low volatility and little correlation with the equity and bond markets through a portfolio having a diversified risk profile. The fund’s ability to satisfy redemption requests is largely contingent upon its ability to redeem assets from private investment funds. Redemptions could generally be made as of the end of any calendar quarter upon 90 days prior to written notice to the Administrator.

**Real estate funds** – This category is an investment in two different real estate investment trusts (REIT’s), which are invested in real estate for current income or capital appreciation or both. All or a portion of shares can be redeemed on a quarterly basis by giving written notice at least 60 days prior to the end of the quarter. However, both funds have currently stopped investor liquidations until further notice.

**Private equity** – This category includes two funds that operate as “fund of funds” investment vehicles that seek to realize long term returns in excess of those available through conventional investments primarily by investing in a diversified group of closed-end private funds focused on investment partnerships.

# Missouri State University Foundation

## Notes to Financial Statements

### June 30, 2012

#### ***Investments Held in Trust***

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the investments are classified as Level 1, Level 2 and Level 3 of the hierarchy. Inputs used to value Level 2 securities include interest rates for similar debt securities and Treasury obligations with similar maturities. The Level 3 investments are the Foundation's beneficial interest in trusts. Fair value is determined based on the market value of the securities held in the trusts and the Foundation's proportional beneficial interest.

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within fair value hierarchy in which the fair value measurements fall at June 30, 2012:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts	\$ 555,028	\$ 555,028	\$ -	\$ -
U.S. equity mutual funds	15,179,612	15,179,612	-	-
Non-U.S. equity mutual funds	15,163,477	11,347,952	3,815,525	-
U.S. fixed income mutual funds	15,044,354	10,910,642	4,133,712	-
Non-U.S. fixed income mutual funds	1,973,028	1,973,028	-	-
Other mutual funds	7,297,291	1,771,782	1,582,839	3,942,670
Real estate funds	1,168,797	-	-	1,168,797
Hedge funds	3,666,381	-	3,666,381	-
Private equity	1,081,903	-	-	1,081,903
Other	3,500	3,500	-	-
Investments held in trust:				
Mutual funds	433,048	433,048	-	-
Municipal	41,924	-	41,924	-
Other	346,189	250,491	-	95,698
	<u>\$ 61,954,532</u>	<u>\$ 42,425,083</u>	<u>\$ 13,240,381</u>	<u>\$ 6,289,068</u>

## Missouri State University Foundation

### Notes to Financial Statements

#### June 30, 2012

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:

	Mutual Funds	Real Estate Funds	Private Equity	Investments Held in Trust Other
Balance July 1, 2011	\$ 3,854,101	\$ 1,065,670	\$ 973,661	\$ 397,448
Total realized and unrealized gains and losses included in change in net assets	88,569	103,127	(40,017)	(6,535)
Reclass to Level 1	-	-	-	(295,215)
Purchases	-	-	208,892	-
Settlements	-	-	(60,633)	-
Balance July 1, 2012	<u>\$ 3,942,670</u>	<u>\$ 1,168,797</u>	<u>\$ 1,081,903</u>	<u>\$ 95,698</u>

The following method and assumptions were used to estimate the fair value of all other of financial instruments recognized in the accompanying statement of financial position at amounts other than fair value.

#### ***Cash and Cash Equivalents and Accounts Receivable***

The carrying amount approximates fair value.

#### ***Pledges Receivable***

The carrying amount is a reasonable estimate of fair value as described in *Note 8*.

#### ***Annuities and Trusts Payable***

Fair values of the annuity and trust obligations are based on the present value of the estimated annuity or other payments under such obligations.

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## Missouri State University Foundation

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