

# Missouri State University Foundation

Independent Auditor's Report and Financial Statements

June 30, 2017

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## Independent Auditor's Report

Board of Trustees  
Missouri State University Foundation  
Springfield, Missouri

We have audited the accompanying financial statements of Missouri State University Foundation, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Missouri State University Foundation as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited the June 30, 2016, financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 11, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**BKD, LLP**

Springfield, Missouri  
October 23, 2017

**Missouri State University Foundation**  
**Statement of Financial Position**  
**June 30, 2017 (with Comparative Totals for June 30, 2016)**

**Assets**

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 11,737,342	\$ 12,940,477
Accounts receivable, net	5,675	11,137
Prepaid expenses	1,138,915	17,975
Investments	98,052,779	89,397,491
Investments held in trust	744,241	717,957
Investments held for resale	123,126	123,126
Pledges receivable, net	32,678,737	35,335,669
Real estate held for resale	80,000	192,500
Cash value of life insurance	478,943	487,318
Construction in progress	154,805	-
Real estate and equipment, at cost	3,718,602	3,651,002
Accumulated depreciation	<u>(2,627,063)</u>	<u>(2,536,612)</u>
Total assets	<u>\$ 146,286,102</u>	<u>\$ 140,338,040</u>

**Liabilities and Net Assets**

Accounts payable and accrued expenses	\$ 2,799,987	\$ 2,433,333
Pledges payable	103,662	166,929
Deferred revenue	-	5,000
Annuity obligations	165,607	190,724
Funds managed for Missouri State University	<u>199,762</u>	<u>199,762</u>
Total liabilities	<u>3,269,018</u>	<u>2,995,748</u>
<b>Net Assets</b>		
Unrestricted	10,811,290	8,628,945
Temporarily restricted	78,391,326	78,682,240
Permanently restricted	<u>53,814,468</u>	<u>50,031,107</u>
Total net assets	<u>143,017,084</u>	<u>137,342,292</u>
Total liabilities and net assets	<u>\$ 146,286,102</u>	<u>\$ 140,338,040</u>

**Missouri State University Foundation**  
**Statement of Activities**  
**Year Ended June 30, 2017 (with Comparative Totals for the**  
**Year Ended June 30, 2016)**

	2017			Total	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Revenues, Gains and Other Support</b>					
Contributions	\$ 1,802,350	\$ 11,765,954	\$ 3,803,006	\$ 17,371,310	\$ 18,005,111
Investment return	1,379,297	7,766,920	-	9,146,217	(1,453,468)
Gain (loss) on assets held in trust	-	-	59,371	59,371	(41,707)
Life insurance cash value increase (decrease)	(3,532)	(4,843)	-	(8,375)	18,473
Rental income	671,076	-	-	671,076	668,224
Other income	24,384	346,170	35,570	406,124	402,170
Personnel paid by affiliate	2,860,306	-	-	2,860,306	2,865,128
Net assets released from restrictions	19,732,027	(19,732,027)	-	-	-
Total revenues, gains and other support	<u>26,465,908</u>	<u>142,174</u>	<u>3,897,947</u>	<u>30,506,029</u>	<u>20,463,931</u>
<b>Expenses</b>					
Instruction and academic program support	4,743,598	-	-	4,743,598	7,357,727
Student services	3,389,313	-	-	3,389,313	3,081,084
Institutional support	3,595,447	-	-	3,595,447	3,446,945
Scholarships	2,436,837	-	-	2,436,837	1,914,743
Broadcast services	1,072,525	-	-	1,072,525	1,446,049
Rental expenses	511,934	-	-	511,934	552,953
Capital projects - Missouri State University	6,139,427	-	-	6,139,427	1,515,402
JQH Arena debt service	1,837,626	-	-	1,837,626	1,836,801
Costs of direct benefits to donors	6,003	-	-	6,003	24,691
Fundraising	525,198	-	-	525,198	555,777
Total expenses	<u>24,257,908</u>	<u>-</u>	<u>-</u>	<u>24,257,908</u>	<u>21,732,172</u>
Actuarial loss on trust and annuity obligations	25,655	-	10,856	36,511	36,343
Provision for uncollectible pledges	-	388,188	103,730	491,918	595,838
Reduction in value of real estate held for resale	-	44,900	-	44,900	15,000
Total expenses and losses	<u>24,283,563</u>	<u>433,088</u>	<u>114,586</u>	<u>24,831,237</u>	<u>22,379,353</u>
<b>Change in Net Assets</b>	2,182,345	(290,914)	3,783,361	5,674,792	(1,915,422)
<b>Net Assets, Beginning of Year</b>	<u>8,628,945</u>	<u>78,682,240</u>	<u>50,031,107</u>	<u>137,342,292</u>	<u>139,257,714</u>
<b>Net Assets, End of Year</b>	<u>\$ 10,811,290</u>	<u>\$ 78,391,326</u>	<u>\$ 53,814,468</u>	<u>\$ 143,017,084</u>	<u>\$ 137,342,292</u>

See Notes to Financial Statements

**Missouri State University Foundation**  
**Statement of Cash Flows**  
**Year Ended June 30, 2017 (with Comparative Totals for the**  
**Year Ended June 30, 2016)**

	<u>2017</u>	<u>2016</u>
<b>Operating Activities</b>		
Change in net assets	\$ 5,674,792	\$ (1,915,422)
Items not requiring (providing) operating activities cash flows		
Depreciation	90,451	90,452
Reduction in value of real estate held for resale	44,900	15,000
Net realized and unrealized (gains) losses on investments	(8,823,115)	1,691,847
Net realized and unrealized (gains) losses on investments held in trust	(59,371)	41,707
Actuarial loss on trust and annuity obligations	36,511	36,343
Noncash gifts	(1,903,053)	(917,742)
Gain on sale of securities	(8,361)	(2,849)
Changes in		
Accounts receivable	5,462	(4,754)
Prepaid expenses	(1,120,940)	623,715
Pledges receivable	2,656,932	613,096
Accounts payable and accrued expenses	366,654	467,058
Pledges payable	(63,267)	-
Deferred revenue	(5,000)	5,000
Annuity obligations	(61,628)	(61,886)
Contributions restricted for long-term investment	(2,380,430)	(1,162,048)
Other income restricted for long-term investment	(35,570)	(34,706)
Net cash used in operating activities	<u>(5,585,033)</u>	<u>(515,189)</u>
<b>Investing Activities</b>		
Proceeds from sale of investments	200,983,838	36,571,102
Purchase of investments	(200,816,011)	(51,350,891)
Proceeds from sale of investments held in trust	33,087	33,346
Construction in progress acquisitions	(154,805)	-
Decrease (Increase) in cash value of life insurance	8,375	(18,474)
Net cash provided by (used in) investing activities	<u>54,484</u>	<u>(14,764,917)</u>
<b>Financing Activities</b>		
Proceeds from sale of securities	1,911,414	920,591
Proceeds from contributions restricted for investment in endowment	2,380,430	1,162,048
Other income restricted for investment	35,570	34,706
Net cash provided by financing activities	<u>4,327,414</u>	<u>2,117,345</u>
<b>Decrease in Cash and Cash Equivalents</b>	(1,203,135)	(13,162,761)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>12,940,477</u>	<u>26,103,238</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 11,737,342</u>	<u>\$ 12,940,477</u>

# Missouri State University Foundation

## Notes to Financial Statements

### June 30, 2017

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

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

The purpose of the Missouri State University Foundation (the “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 (the “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, 2017, cash equivalents consisted primarily of money market accounts with brokers.

At June 30, 2017, the Foundation’s cash accounts exceeded federally insured limits by approximately \$111,000.

##### ***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.

# Missouri State University Foundation

## Notes to Financial Statements

### June 30, 2017

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, 2017, \$4,488,801 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 building costs of \$2,948,716, land of \$243,983, tenant remodeling improvements of \$83,695 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.

#### ***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. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2014.



**Missouri State University Foundation**  
**Notes to Financial Statements**  
**June 30, 2017**

***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, 2016, 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.

***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.

**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, 2017:

Pooled investments at market value	\$ 77,773,393
Number of pool shares	333,441
Market value per pool share	\$ 233
Fiscal year return	12.24%
Interest and dividend earnings	\$ 68,403
Net gains	\$ 8,977,049

**Missouri State University Foundation**  
**Notes to Financial Statements**  
**June 30, 2017**

**Note 3: Endowment**

The Foundation's endowment consists of approximately 1,019 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

The composition of net assets by type of endowment fund at June 30, 2017, was:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ (38)	\$ 23,873,897	\$ 53,211,125	\$ 77,084,984
Board-designated endowment funds	3,161,109	-	-	3,161,109
<b>Total endowment funds</b>	<b>\$ 3,161,071</b>	<b>\$ 23,873,897</b>	<b>\$ 53,211,125</b>	<b>\$ 80,246,093</b>

**Missouri State University Foundation**  
**Notes to Financial Statements**  
**June 30, 2017**

Changes in endowment net assets for the year ended June 30, 2017, were:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 2,782,895	\$ 18,235,722	\$ 49,476,277	\$ 70,494,894
Investment return				
Investment income	-	9,504,328	-	9,504,328
Net depreciation	348,291	(348,291)	-	-
Total investment return	348,291	9,156,037	-	9,504,328
Contributions	-	-	3,699,278	3,699,278
Other income	22,939	(449)	35,570	58,060
Appropriation of endowment assets for expenditure	-	(4,321,317)	-	(4,321,317)
Other additions	6,946	803,904	-	810,850
Endowment net assets, end of year	<u>\$ 3,161,071</u>	<u>\$ 23,873,897</u>	<u>\$ 53,211,125</u>	<u>\$ 80,246,093</u>

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 \$38 at June 30, 2017. 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.

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 a rate of return of approximately 7.7% annually over time. Actual returns in any given year may vary from this amount.

# Missouri State University Foundation

## Notes to Financial Statements

### June 30, 2017

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 month end preceding the month 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 a rate of 1.5% to 3% 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 having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at the time of donation, if acquired by contribution) or fair value. Investments in private equity funds, hedge funds and some mutual funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments. Investment return includes dividend, 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.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts 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 investments accounts, as adjusted for additions to or deductions from those accounts.

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, 2017**

Investments are summarized as follows:

Accrued income	\$ 106,851
Money market accounts	9,740,484
U.S. equity mutual funds	17,053,706
Non-U.S. equity mutual funds	25,827,828
Other mutual funds	1,576,772
Real estate funds	2,694,944
U.S. Treasury securities	23,914,224
Corporate bonds	5,121,826
Hedge funds	10,197,884
Private equity	1,814,760
Other	3,500
	<u>\$ 98,052,779</u>

Investment return consists of the following:

Investment income	\$ 323,102
Net realized and unrealized gains on investments reported at fair value	<u>8,823,115</u>
	<u>\$ 9,146,217</u>

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, 2017, totaled \$110,999.

**Alternative Investments**

The fair value of alternative investments has been estimated using the net asset value per share of the investments. Additional information about these investments is described in *Note 12*.

Alternative investments held at June 30, 2017, consist of the following:

	<b>Fair Value</b>	<b>June 30, 2017 Unfunded Commitments</b>	<b>Redemption Notice Period</b>
Hedge funds	\$ 10,197,884	\$ -	95 days
Real estate funds	15,733	-	45 - 60 days
Private equity funds	1,814,760	4,727,954	N/A
Mutual funds	4,983,984	-	N/A

**Missouri State University Foundation**  
**Notes to Financial Statements**  
**June 30, 2017**

**Note 5: Related Party Transactions**

The Foundation received contributed personnel services from the University of \$2,860,306 for the year ended June 30, 2017. The contributed personnel services are based on costs incurred by the University. The Foundation receives administrative support outside of personnel services from the University without charge.

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, 2017, were \$508,871 and are included in rental income. Pledges payable, accounts payable and accrued expenses include \$2,786,410 due to the University at June 30, 2017.

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, 2017.

***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 \$80,000 at June 30, 2017.

**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's interest in the trust at June 30, 2017, is \$90,527. The income received by the Foundation from this trust was \$5,058 for this fiscal year. The Foundation is also the beneficiary of three charitable remainder trusts with a fair value at June 30, 2017, of \$653,714.

**Missouri State University Foundation**  
**Notes to Financial Statements**  
**June 30, 2017**

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. There was no revenue recognized by the Foundation under these agreements during the year ended June 30, 2017.

The annuity obligation at June 30, 2017, of \$165,607 was calculated over the terms of the agreements based on the rates for government securities with similar maturities.

**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 .65% to 3.30%. Pledges receivable consist of the following unconditional promises to give at June 30, 2017:

Due within one year	\$ 6,933,388
Due in one to five years	12,325,028
Due in more than five years	20,507,886
	39,766,302
Less: Allowance for doubtful accounts	256,948
Unamortized discount	6,830,617
	7,087,565
	\$ 32,678,737

Pledges are included in the following net asset classification:

Temporarily restricted	\$ 30,128,861
Permanently restricted	2,549,876
	\$ 32,678,737

Refer to *Notes 12 and 13* for additional disclosures regarding significant concentrations and uncertainties within the pledge receivable balance at June 30, 2017.

**Missouri State University Foundation**  
**Notes to Financial Statements**  
**June 30, 2017**

**Note 9: Leases**

Noncancelable leases for space in the Kenneth E. Meyer Alumni Center expire in various years through 2022. Several of these leases contain renewal options for periods ranging from one to three years. Future minimum lease income at June 30, 2017, is as follows: 2018 – \$647,422; 2019 – \$96,875; 2020 – \$84,341; 2021 – \$74,981; 2022 – \$74,981.

**Note 10: Net Assets**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at June 30, 2017, are available for the following purposes:

Any purpose, time restricted	\$ 45,712
Instruction and academic program support	18,479,533
Student services	4,361,949
Institutional support	31,568,022
Scholarships	19,740,604
Broadcast services	<u>4,195,506</u>
	<u><u>\$ 78,391,326</u></u>

***Permanently Restricted Net Assets***

Permanently restricted net assets at June 30, 2017, are restricted to investments in perpetuity, the revenue from which is expendable to support:

Instruction and academic program support	\$ 16,063,582
Student services	887,777
Institutional support	1,943,401
Scholarships	34,818,444
Broadcast services	<u>101,264</u>
	<u><u>\$ 53,814,468</u></u>



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***Net Assets Released from Restrictions***

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

	<b>2018</b>
Purpose restrictions accomplished	
Academic and student support program expenses	\$ 10,465,484
Capital program expenses and debt service	7,933,044
Other program expenses	1,333,499
	<b>\$ 19,732,027</b>

**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:

- 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.

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**Recurring Measurements**

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 the fair value hierarchy in which the fair value measurements fall at June 30, 2017.

	Total 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)
Investments by fair value level				
Cash equivalents	\$ 3,965,758	\$ 3,965,758		
Money market funds	9,740,484	9,740,484	\$ -	\$ -
U.S. equity mutual funds	17,053,706	17,053,706	-	-
Non-U.S. equity mutual funds	22,420,616	22,420,616	-	-
U.S. Treasury securities	23,914,224	-	23,914,224	-
Corporate bonds	5,121,826	-	5,121,826	-
Real estate	2,679,211	2,679,211	-	-
Other	3,500	3,500	-	-
Investments held in trust				
Mutual funds	380,327	380,327	-	-
Other	363,913	273,386	-	90,527
Total investments by fair value level	<u>85,643,565</u>	<u>\$ 56,516,988</u>	<u>\$ 29,036,050</u>	<u>\$ 90,527</u>
Investments measured at the net asset value (NAV) (A)				
Non-U.S. equity mutual funds	3,407,212			
Other mutual funds	1,576,772			
Real estate	15,733			
Hedge funds	10,197,884			
Private equity	1,814,760			
Total investments measured at the NAV	<u>17,012,361</u>			
Total investments	<u>\$ 102,655,926</u>			

(A) Certain investments that are measured using the net assets value per share (or equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliations of the fair value hierarchy to the amounts presented in the statements of financial position.

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**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 cash equivalents, money market funds, equity securities, hedge funds 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. Inputs used to value Level 2 securities include interest rates for similar debt securities and Treasury obligations with similar maturities.

**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. 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.

**Unobservable (Level 3) Inputs**

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at June 30, 2017.

	<b>Fair Value at 6/30/2017</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range (Weighted Average)</b>
Investments held in trust	\$ 90,528	Market value of underlying securities	Liquidation Discount Rate	0%

**Fair Value of Financial Instruments**

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

**Cash Equivalents**

The carrying amount approximates fair value.

**Pledges Receivable**

The carrying amount is a reasonable estimate of fair value as described in *Note 8*, which is estimated by discounting the cash flows of the future payments expected to be received.

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***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.

**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:

***Contributions and Pledges Receivable***

Approximately 65% of the net pledges receivable balance outstanding at June 30, 2017, was due from the Trust of John Q. Hammons (the "Trust"). Refer to *Note 13* for potential uncertainty regarding future collectability of the net pledge receivables.

***Investment Securities***

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.

**Note 13: Uncertainties of Future Collectability of Significant Pledge Receivable**

The Trust (*Note 12*) and more than 70 entities associated with the Trust (the John Q. Hammons Entities) filed for bankruptcy protection in the federal bankruptcy court in Kansas City, Kansas, on June 26, 2016. The entities are believed to include substantially all the hotel operating entities of the John Q. Hammons enterprise. The Trust is scheduled to make scheduled payments to the Foundation towards the pledge receivable on April 1 and October 1. The Foundation received the October 1, 2017, scheduled payment of \$387,530 on September 28, 2017. At June 30, 2017, the balance of the net pledge receivable is \$21,155,299. The John Q. Hammons Entities have been operating in the ordinary course and making payments to creditors, including the Foundation, pursuant to orders approved periodically by the bankruptcy court. Similar orders will need to be entered by the bankruptcy court in the future for the John Q. Hammons Entities to continue operating in the ordinary course and paying creditors during the pendency of the bankruptcy case. The Foundation cannot speculate on the outcome of the bankruptcy case and the ability for future payments to creditors, including the Foundation, and are dependent on the decisions determined by bankruptcy court. Based on these factors, there is no allowance recorded for this pledge as the uncollectible amount, if any, cannot be reasonably estimated. As the case progresses, more information might be obtained that could significantly affect the balance of the net pledge receivable.

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**Note 14: Subsequent Events**

Subsequent events have been evaluated through October 23, 2017, which is the date the financial statements were available to be issued.