
THE HAGAN SCHOLARSHIP FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2011

THE HAGAN SCHOLARSHIP FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Trustee
The Hagan Scholarship Foundation

We have audited the accompanying statement of net assets of The Hagan Scholarship Foundation (the Foundation) as of December 31, 2011 and the related statement of changes in net assets 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.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we express no such opinion. 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 **The Hagan Scholarship Foundation** as of December 31, 2011 and the changes in its net assets and its cash flows for the year then ended.

Kiefer Bonfanti & Co. LLP

St. Louis, Missouri

July 26, 2012

THE HAGAN SCHOLARSHIP FOUNDATION

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

Assets

Cash and cash equivalents	\$ 2,498,477
Contributions receivable	164,967
Investments - common stocks, at fair value	61,775,242
Total Assets	\$ 64,438,686

Liabilities

Accounts payable	\$ 11,094
Deferred excise taxes	178,304
Total Liabilities	189,398

Net Assets

Unrestricted net assets - board designated	456,111
Unrestricted net assets - undesignated	63,793,177
Total Net Assets	64,249,288
Total Liabilities and Net Assets	\$ 64,438,686

THE HAGAN SCHOLARSHIP FOUNDATION

STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2011

Unrestricted Net Assets

Revenue

Contributions	\$ 21,230,342
Change in unrealized gains on investments	2,670,870
Dividend and interest income	1,091,315
Total Unrestricted Revenue	24,992,527

Expenses

Scholarship awards	65,398
Additional awards	34,510
Interview awards	4,250
Total awards	104,158
Taxes	98,354
Scholarship administration	7,822
Recipient workshop	5,793
Interviewee and recipient travel	4,850
Office expense	1,444
Total Expenses	222,421
Increase in Unrestricted Net Assets	24,770,106
Net Assets, Beginning of Year	39,479,182
Net Assets, End of Year	\$ 64,249,288

THE HAGAN SCHOLARSHIP FOUNDATION

**STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011**

Cash Flows from Operating Activities		
Increase in net assets	\$	24,770,106
Adjustments:		
Non-cash contributions		(21,065,375)
Change in unrealized gains on investments		(2,670,870)
Increase in accounts receivable		(37,678)
Increase (decrease) in liabilities		
Accounts payable		11,094
Deferred excise taxes		79,384
Net Cash Provided by Operating Activities		1,086,661
Net Increase in Cash and Cash Equivalents		1,086,661
Cash and Cash Equivalents, Beginning of Year		1,411,816
Cash and Cash Equivalents, End of Year	\$	2,498,477
Cash Paid for Taxes	\$	7,876
Non-Cash Contributions:		
Contributions of common stock	\$	21,065,375

THE HAGAN SCHOLARSHIP FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

The Hagan Scholarship Foundation (the Foundation) provides educational scholarships to graduates from public high schools located in counties with fewer than 50,000 residents.

The Foundation was created in Missouri in 2008 as an irrevocable trust to award and to fund Hagan Scholarships and to establish the Hagan Academy and to provide certain services in order to ensure that each recipient will have the opportunity to obtain a college education without incurring burdensome debt.

Donated assets of the Foundation are invested in accordance with requirements of the trust agreement, with earnings derived from such assets used for awards, reinvestment, and operating purposes.

Financial Statement Presentation

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted – net assets that are not subject to donor-imposed stipulations or the donor-imposed stipulations have expired.

Temporarily Restricted – net assets subject to donor-imposed stipulations that can be satisfied by actions of the Foundation or by the passage of time.

Permanently Restricted – net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

The Foundation records all income or losses from its investments as unrestricted net assets. These amounts are for awards or operating purposes.

There were no temporarily or permanently restricted net assets or donations at December 31, 2011.

THE HAGAN SCHOLARSHIP FOUNDATION

Notes to Financial Statements (Continued)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with maturity terms of three months or less when acquired to be cash equivalents. Cash and cash equivalents are carried at cost which approximates fair value.

Contributions

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

Investments

Equity securities with readily determinable fair market values are carried at fair values based on quoted market prices.

Investment gains or losses are recognized upon realization, or when their values are deemed to have been permanently impaired. The Foundation uses the specific identification method to determine its historical basis, which is based on the fair value at the beginning of the period (or date of acquisition, if acquired during the year), in computing realized gains and losses. Unrealized gains and losses are recognized based on changes in fair values during the period for those securities held at the end of the period. Interest, dividends, and distributions are recognized as income when received and are restricted for grant and operating purposes.

The Foundation only holds investments in common stock of publicly traded companies.

Income Tax Status

The Foundation is organized as a private foundation exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code (the Code) and is classified as a private foundation as defined under Section 509 of the Code and as a "Private Operating Foundation" as defined in Section 4942(j)(3) of the Code. In accordance with the provisions of the Code, the Foundation is liable for excise tax on net investment income as defined by the Code and is subject to taxes on unrelated business income for both federal and state income tax purposes.

Deferred federal excise taxes are the result of unrealized appreciation on investments being reported for financial statement purposes in different periods than for tax purposes.

Spending Policy

The Foundation's policy is to appropriate for award distributions each year such amounts as are determined by the Foundation's calculation for disbursements as required by Section 509(a) of the Code.

THE HAGAN SCHOLARSHIP FOUNDATION

Notes to Financial Statements (Continued)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates also affect the amounts of revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The investments of the Foundation are exposed to market risks. Due to the level of risk associated with the Foundation's investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in values in the near term could affect the Foundation's investment balances and the amounts reported in the statement of changes in net assets and the statement of net assets.

Although the market value of investments is subject to fluctuations on a year-to-year basis, management believes its investment policy is prudent for the long-term welfare of the Foundation.

2. INVESTMENTS

All investments of the Foundation are managed by the Hagan Trust, a trust organized by the grantor who organized The Hagan Scholarship Foundation. The book value, fair value and unrealized gain attributable to the Foundation's investments at December 31, 2011 are as follows:

Fair value	\$ 61,775,242
Book value	58,236,875
Unrealized Gain	\$ 3,538,367

The book value presented above represents the historical basis for income tax purposes. Realized gains or losses for financial reporting purposes for securities sold are determined based on the fair value at the beginning of the period. (See Note 1).

THE HAGAN SCHOLARSHIP FOUNDATION

Notes to Financial Statements (Continued)

2. INVESTMENTS (CONTINUED)

The following is a list of investments representing more than 5% of the total fair value of investments at December 31, 2011:

	<u>Market Value</u>
Ameren Corporation	\$ 5,725,354
American Express	5,094,796
Bank of NY Mellon	5,161,114
BBT	4,893,467
Chubb Corp	4,485,840
Conoco Phillips	4,722,380
Intel Corporation	5,238,449
Raytheon Co	5,225,488
Stryker	5,525,321
Sanofi	4,295,312
Telus	5,783,895
Torchmark	5,623,826
<u>Total</u>	<u>\$ 61,775,242</u>

3. FAIR VALUE MEASUREMENTS

Financial accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the standards are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are significant unobservable inputs.

THE HAGAN SCHOLARSHIP FOUNDATION

Notes to Financial Statements (Continued)

3. FAIR VALUE MEASUREMENTS (CONTINUED)

The fair value measurement level of the asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The inputs or methodologies used for valuing investments may not be an indication for the risk associated with investing in those securities. Furthermore, the Foundation believes its valuation methods are appropriate and consistent. The use of different methodologies or assumptions could result in a different fair value measurement at the reporting date. As of December 31, 2011 and 2010, the fair values for all investments were determined based on Level 1 inputs.

4. RELATED PARTIES

At no cost, the Foundation receives administrative and occupancy services from the grantor who organized the Foundation, and investment management services from the Hagan Trust, also organized by the grantor.

5. INCOME TAXES

The Internal Revenue Code requires the Foundation to distribute within 12 months of the end of each year approximately two-thirds of 5% of the average fair value of its assets not used in carrying out the charitable purpose of the Foundation. The distribution requirement begins after a 5-year start-up period which ends on December 31, 2012.

The Internal Revenue Code imposes an excise tax on private foundations equal to 2% of net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income). This tax may be reduced to 1% for foundations that meet certain distribution requirements.

The provision for federal excise tax consists of a current provision on realized net investment income and a deferred provision on net unrealized appreciation of investments. The current provision for 2011 on net investment income at 1% was \$10,834. For the year ended December 31, 2011, the change in unrealized appreciation reflected on the Statement of Changes in Net Assets results in a provision for deferred taxes of \$79,384. The unrealized appreciation at December 31, 2011 resulted in a deferred federal excise tax liability of \$178,304.

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Notes to Financial Statements (Continued)

5. INCOME TAXES (CONTINUED)

Financial accounting standards for uncertain tax positions prohibit financial statement recognition of the impact of a tax position if the position is not “more likely than not” to be sustained on audit, based on the technical merits of the position. The standards also provide guidance on measurement, recognition, classification, transition, and disclosure requirement for uncertain tax positions. The Foundation’s Form 990-PF for tax years 2008 and later remain subject to examination by taxing authorities.

6. SUBSEQUENT EVENTS

Management evaluated subsequent events through July 26, 2012 (the date which the financial statements were available to be issued) for events that require recognition in the 2011 financial statements or disclosure in the notes to the financial statements. There were no subsequent events that required recognition or disclosure in the financial statements.