
THE HAGAN SCHOLARSHIP FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2015

THE HAGAN SCHOLARSHIP FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Trustee of
The Hagan Scholarship Foundation

We have audited the accompanying financial statements of **The Hagan Scholarship Foundation** (the Foundation), a private foundation, which comprise the statement of financial position as of December 31, 2015, and the related statements of changes in net assets 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.

Auditors' 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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, 2015 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.

Kiefer Bonfanti & Co. LLP

St. Louis, Missouri
June 30, 2016

THE HAGAN SCHOLARSHIP FOUNDATION

**STATEMENT OF NET ASSETS
DECEMBER 31, 2015**

Assets

Cash and cash equivalents	\$	5,649,680
Scholar investment accounts		2,130,000
Construction in process - Hagan Scholarship Academy		11,860,191
Investments - common stocks, at fair value		136,427,260
Investment - rental real estate operation		38,050,327
Total Assets	\$	194,117,458

Liabilities

Accounts payable	\$	92,178
Deferred federal excise taxes		465,280
Total Liabilities		557,458

Net Assets

Unrestricted net assets		193,560,000
Total Net Assets		193,560,000
Total Liabilities and Net Assets	\$	194,117,458

THE HAGAN SCHOLARSHIP FOUNDATION

**STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2015**

Unrestricted Support, Revenues, and Gains	
Contributions	\$ 14,322,026
Realized and unrealized gains (losses) on investments	(12,265,110)
Dividend and interest income	3,329,348
Rental income, net of expenses	1,277,291
Total Unrestricted Support, Revenues, and Gains	6,663,555
Expenses	
Scholarship awards	1,784,218
Interview awards	92,834
Total Awards	1,877,052
Taxes	169,136
Candidate and recipient travel	81,810
Scholarship administration	96,555
Hagan Academy	1,505,313
Professional fees	31,847
Office expense	36,049
Total Expenses	3,797,762
Increase in Unrestricted Net Assets	2,865,793
Net Assets, January 1, 2015, as originally presented	193,094,207
Prior Period Adjustment	(2,400,000)
Net Asset, January 1, 2015, as restated	190,694,207
Net Assets, December 31, 2015	\$ 193,560,000

THE HAGAN SCHOLARSHIP FOUNDATION

**STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015**

Cash Flows from Operating Activities	
Increase in net assets	\$ 2,865,793
Adjustments:	
Unrealized gains on investments	(46,527,981)
Increase in investment - rental real estate operation	(1,251,696)
Decrease (increase) in assets	
Scholar investment accounts	(770,000)
Increase (decrease) in liabilities	
Accounts payable	12,091
Deferred excise taxes	(176,019)
Net Cash Used by Operating Activities	(45,847,812)
Cash Flows from Investing Activities	
Construction in process - Hagan Scholarship Academy	(108,266)
Net purchases and sales of investments - common stocks	45,216,497
Net Cash Provided by Investing Activities	45,108,231
Net Decrease in Cash and Cash Equivalents	(739,581)
Cash and Cash Equivalents, Beginning of Year	6,389,261
Cash and Cash Equivalents, End of Year	\$ 5,649,680
Cash Paid for Taxes	\$ 345,155

THE HAGAN SCHOLARSHIP FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

The Hagan Scholarship Foundation (the Foundation) provides educational scholarships to high achieving students in need of financial assistance in order to attend college. These students will graduate from a public high school located in an eligible state and in a county having 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 provide certain services in order to ensure that each recipient will have the opportunity to obtain a four-year college education without incurring burdensome debt. During 2013, the trust agreement under which the Foundation was formed was restated.

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 that are available for the general purpose of operating the Foundation and awarding of scholarships and that are not subject to donor-imposed specific stipulations or donor-imposed stipulations have expired.

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

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

There were no net assets subject to donor-imposed specific stipulations at December 31, 2015.

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

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. Investments in equity securities consist only of investments in common stock of publicly traded companies.

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 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 available for award and operating purposes.

Investments in rental real estate are carried at fair value based on appraisal at time of contribution or on purchase price and accumulated earnings from operation.

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.

Distribution 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. RENTAL REAL ESTATE

As of December 30, 2012, rental real estate was contributed in its entirety to **The Hagan Scholarship Foundation** as an investment of the Foundation for its benefit. The rental real estate was recorded at fair value based on an independent appraisal. Depreciation is recorded on the straight-line basis over estimated lives of 5 to 27.5 years. During 2013, the rental real estate was conveyed to the Hagan Trust for management and operation.

At December 31, 2015, rental real estate consists of the following:

Land, buildings and equipment, at cost	\$ 35,017,616
Accumulated depreciation	4,000,448
Land, Buildings, and Equipment, Net	\$ 31,017,168

Results of rental real estate operations for the year ended December 31, 2015 consists of the following:

Rental revenue	\$ 3,592,253
Rental expenses	2,339,980
Net Rental Income	\$ 1,252,273

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Notes to Financial Statements (Continued)

3. HAGAN SCHOLARSHIP ACADEMY

Subsequent to December 31, 2012, the Foundation acquired real estate in Columbia, Missouri on which it intends to build a college preparatory academy for high-achieving junior- and senior-level high school students in a residential setting. In addition to classroom space, the academy facilities will include dormitories and administrative offices.

4. SCHOLAR INVESTMENT ACCOUNTS

The Foundation establishes Scholar Investment Accounts of \$10,000 for each scholarship recipient during the fall semester of their sophomore year. The recipients are permitted to invest the funds pursuant to the instructions and guidelines of the Foundation. All funds and accumulated earnings remain the property of the Foundation until the recipient graduates from college. Upon graduation from college, all earnings (dividends and appreciation in fair value) will be awarded to the recipient. Recipients will not be responsible for losses, if any, in their account.

5. INVESTMENTS

At December 31, 2015, all common stock investments of the Foundation are managed by the Hagan Trust, a trust organized by the grantor who organized **The Hagan Scholarship Foundation**.

Fair value	\$ 136,427,260
Cost basis	<u>89,899,279</u>
Unrealized Gain	<u>\$ 46,527,981</u>

The cost basis 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)

5. INVESTMENTS (CONTINUED)

Investments in common stock at December 31, 2015 are as follows:

	Fair Value
American Express Company	\$ 11,147,514
Bank of NY Mellon Co	11,325,883
BB& T Corporation	8,657,441
Chubb Corporation	9,111,264
Freeport McMoran Copper	3,100,284
JP Morgan Chase & Co.	12,095,230
Lincoln National Corp	9,206,516
Marathon Pete Corp	9,495,937
Medtronic	7,045,018
Metlife Inc	9,934,877
Rio Tinto PLC Spon ADR F	5,334,138
Sanofi ADR F	6,054,713
Stryker Corp	8,512,272
Telus Corp New F	7,600,237
Torchmark Corporation	10,601,324
Total S A ADR F	7,204,612
Total	\$ 136,427,260

Investment in rental real estate at December 31, 2015 is \$38,050,327.

6. 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 inputs) and the lowest priority to unobservable inputs (level 3 inputs). 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.

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Notes to Financial Statements (Continued)

6. FAIR VALUE MEASUREMENTS (CONTINUED)

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

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, 2015, the fair values for all investments in common stocks were determined based on Level 1 inputs.

The Foundation's investment in rental real estate, as described in Note 2, was appraised as of the date of contribution. The appraisal is a Level 3 fair value measurement and is based on a combination of the financial performance of the rental real estate and sales of comparable properties. The investment was valued using the retrospective market value of a fee simple interest, which the Foundation believes represents the property's fair value. There are no unquantifiable measurements which contribute to the fair value of the investment in the rental real estate.

7. RELATED PARTIES

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

8. 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, 2013.

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.

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Notes to Financial Statements (Continued)

8. TAXES (CONTINUED)

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.

Tax expense for year ended December 31, 2015

Current

Federal excise taxes	\$ 92,178
Foreign income taxes	251,254
<u>Total current tax expense</u>	<u>343,432</u>

Deferred

Federal excise taxes	(176,019)
<u>Total Tax Expense</u>	<u>\$ 167,413</u>

<u>Deferred federal excise taxes on unrealized appreciation at December 31, 2015</u>	<u>\$ 465,280</u>
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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 Foundation’s Form 990-PF for tax years 2012 and later remain subject to examination by taxing authorities.

9. SUBSEQUENT EVENTS

Management evaluated subsequent events through June 30, 2016 the date which the financial statements were available to be issued, for events that require recognition in the 2015 financial statements or disclosure in the notes to the financial statements.

10. PRIOR PERIOD ADJUSTMENT

Management has restated the investment in rental real estate operation to more properly reflect the fair market value as of January 1, 2015. The restatement resulted in a decrease in unrestricted net assets of \$2,400,000 as of January 1, 2015.