2010-2011

FINANCIAL REPORT

Missouri State University Foundation

CONTENTS

ABOUT MISSOURI STATE UNIVERSITY

Missouri State University is a public university system with an enrollment of more than 20,000 students who come from all 50 states and 83 countries. There are four physical campuses, located in Springfield, Mo.; West Plains, Mo.; Mountain Grove, Mo.; and Dalian, China. Students can follow their passion and find their place at Missouri State University.

Missouri State offers:

• Distinctive Mission, Remarkable Education
• Affordable Choice, Unbeatable Value
• Memorable Experiences, Lifetime Success

PUBLIC AFFAIRS MISSION

On June 15, 1995, Missouri Governor Mel Carnahan signed into law Senate Bill 340 which gave Missouri State University a statewide mission in public affairs. This mission defines a primary way in which a Missouri State education is different from that of other universities and one way by which we educate our students to imagine the future.

The three broad themes of the public affairs mission can be articulated as:

Ethical leadership
Goal: *Students will articulate their value systems, act ethically within the context of a democratic society, and demonstrate engaged and principled leadership. (Adapted from the Center for Ethical Leadership.)*

Cultural competence
Goal: *Students will recognize and respect multiple perspectives and cultures.*

Community Engagement
Goal: *Students will recognize the importance of contributing their knowledge and experiences to their own community and the broader society.*

Goal: *Students will recognize the importance of scientific principles in the generation of sound public policy.*

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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, 2011, 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, 2010 financial statements and in our report dated October 12, 2010, 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, 2011, 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 7, 2011

Statement of Financial Position

June 30, 2011 (with comparative totals for June 30, 2010)

		2011	2010
Assets	Cash and cash equivalents	$ 19,649,849	$ 20,102,098
	Accounts receivable, net	8,500	42,064
	Investments	59,502,404	46,291,023
	Investments held in trust	913,497	1,049,489
	Investments held for resale	123,126	123,126
	Pledges receivable, net	34,973,317	37,075,922
	Real estate held for resale	211,382	360,382
	Cash value of life insurance	452,449	451,137
	Construction in progress	202,454	24,750
	Real estate and equipment, at cost	2,991,817	2,991,817
	Accumulated depreciation	(2,001,663)	(1,922,868)
	Total Assets	$ 117,027,132	$ 106,588,940
Liabilities	Accounts payable and accrued expenses	$ 659,940	$ 135,463
	Pledges payable	2,726,340	1,822,000
	Annuity obligations	329,927	362,545
	Funds managed for Missouri State University	199,762	199,762
	Total Liabilities	3,915,969	2,519,770
Net Assets	Unrestricted	4,808,349	3,276,116
	Temporarily restricted	68,147,267	63,016,298
	Permanently restricted	40,155,547	37,776,756
	Total Net Assets	113,111,163	104,069,170
	Total Liabilities and Net Assets	$ 117,027,132	$ 106,588,940

See Notes to Financial Statements

Statement of Activities

Year ended June 30, 2011 (with comparative totals for June 30, 2010)

		Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Revenues, Gains and Other Support	Contributions	$ 325,256	$ 12,025,840	$ 2,499,606	$ 14,850,702	$ 16,917,916
	Investment return	2,683,485	7,277,645		9,961,130	4,212,399
	Gain (loss) on assets held in trust		(1,093)	(100,709)	(101,802)	516,508
	Life insurance cash value increase (decrease)	(3,307)	9,195		5,888	6,386
	Rental income	669,253			669,253	672,195
	Other income	35,972	236,069	80,961	353,002	481,434
	Net assets released from restrictions	14,167,085	(14,167,085)			
	Total Revenues, Gains and Other Support	17,877,744	5,380,571	2,479,858	25,738,173	22,806,838
Expenses and Losses	Instruction and academic program support	2,407,562			2,407,562	3,126,644
	Student services	3,874,414			3,874,414	3,794,646
	Institutional support	445,541			445,541	312,217
	Scholarships	1,599,021			1,599,021	1,243,924
	Broadcast services	1,403,636			1,403,636	1,232,263
	Rental expenses	496,563			496,563	433,999
	Capital projects – Missouri State University	3,537,789			3,537,789	2,713,986
	JQH Arena debt service	1,937,014			1,937,014	1,916,041
	Costs of direct benefits to donors	30,111			30,111	38,031
	Fund raising	602,760			602,760	718,453
	Total Expenses	16,334,411			16,334,411	15,530,204
	Actuarial (gain) loss on trust and annuity obligations	11,100	(905)	18,432	28,627	29,878
	Provision for uncollectible pledges		161,507	82,635	244,142	143,226
	Losses on real estate held for resale		57,000		57,000	
	Reduction in value of real estate held for resale		32,000		32,000	
	Total Expenses and Losses	16,345,511	249,602	101,067	16,696,180	15,703,308
	Change in Net Assets	1,532,233	5,130,969	2,378,791	9,041,993	7,103,530
	Net Assets, Beginning of Year	3,276,116	63,016,298	37,776,756	104,069,170	96,965,640
	Net Assets, End of Year	$ 4,808,349	$ 68,147,267	$ 40,155,547	$ 113,111,163	$ 104,069,170

See Notes to Financial Statements

Statement of Cash Flows

Year ended June 30, 2011 (with comparative totals for June 30, 2010)

		2011	2010
Cash Flows From Operating Activities	Change in net assets	$ 9,041,993	$ 7,103,530
	Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities		
	Depreciation	78,795	78,795
	Reduction in value of real estate held for resale	32,000	
	Losses on real estate held for resale	57,000	
	Net realized and unrealized gains on investments	(9,615,566)	(3,850,830)
	Net realized and unrealized (gains) losses on investments held in trust	101,802	(516,508)
	Actuarial loss on trust and annuity obligation	28,627	29,878
	Non-cash gifts	(440,334)	(346,773)
	(Gain) loss on sale of securities	3,490	(13,837)
	Changes in:		
	Accounts receivable	33,564	(28,749)
	Pledges receivable	2,102,605	(1,346,099)
	Accounts payable and accrued expenses	405,207	37,905
	Pledges payable	904,340	1,707,400
	Annuity obligations	(61,245)	(69,910)
	Contributions restricted for long-term investment	(4,084,828)	(2,850,901)
	Other income restricted for long-term investment	(80,961)	(84,647)
	Net Cash And Cash Equivalents Used In Operating Activities	(1,493,511)	(150,746)
Cash Flows From Investing Activities	Proceeds from sale of investments	14,091,165	26,835,487
	Purchases of investments	(17,686,980)	(26,486,008)
	Proceeds from sale of investments held in trust	34,190	85,635
	Proceeds from sale of real estate held for resale	60,000	
	Proceeds from sale of securities	436,844	403,144
	Proceeds from life insurance policies cashed	4,576	39,489
	Construction in progress acquisitions	(58,434)	(24,750)
	Increase in cash value of life insurance	(5,888)	(7,353)
	Net Cash and Cash Equivalents Provided By (Used In) Investing Activities	(3,124,527)	845,644
Cash Flows From Financing Activities	Proceeds from contributions restricted for investment in endowment	4,084,828	2,850,901
	Other income restricted for reinvestment	80,961	84,647
	Net Cash And Cash Equivalents Provided By Financing Activities	4,165,789	2,935,548
	Increase (Decrease) in Cash and Cash Equivalents	(452,249)	3,630,446
	Cash and Cash Equivalents, Beginning of Year	20,102,098	16,471,652
	Cash and Cash Equivalents, End of Year	$ 19,649,849	$ 20,102,098

Supplemental Data

Accounts payable incurred for construction in progress	$ 119,270	$

See Notes to Financial Statements

Notes to Financial Statements June 30, 2011

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:

A. Unrestricted Net Assets—net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations, and are expendable for any purpose.

B. 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.

C. 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, 2011, 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, 2011, the Foundation's interest-bearing cash accounts exceeded federally insured limits, by approximately $1,958,000.

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.

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, 2011, $2,079,986 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.

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 2008.

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, 2010, 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 October 7, 2011, 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.

Notes to Financial Statements June 30, 2011

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, 2011:

Pooled investments at market value	$	59,837,782
Number of pool shares		249,918
Market value per pool share	$	239
Fiscal year return		20.1%
Interest and dividend earnings	$	200,226
Net gains	$	9,572,142

Note 3: Endowment

The Foundation's endowment consists of approximately 914 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 purdence 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, 2011 was:

		Unrestricted		Temporarily Restricted		Permanently Restricted		2011 Total
Donor-restricted endowment funds	$	(62,242)	$	18,733,386	$	39,542,447	$	58,213,591
Board-designated endowment funds		3,014,478						3,014,478
Total endowment funds	$	2,952,236	$	18,733,386	$	39,542,447	$	61,228,069

Changes in endowment net assets for the year ended June 30, 2011 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Endowment net assets, beginning of year	$ 1,042,164	$ 13,217,420	$ 37,044,515	$ 51,304,099
Investment return:				
Investment income	564	866,123		866,687
Net appreciation	1,868,931	7,702,351		9,571,282
Total investment return	1,869,495	8,568,474		10,437,969
Contributions			2,416,971	2,416,971
Other Income	35,564	26,871	80,961	143,396
Appropriation of endowment assets for expenditure		(3,082,772)		(3,082,772)
Other Additions	5,013	3,393		8,406
Endowment net assets, end of year	$ 2,952,236	$ 18,733,386	$ 39,542,447	$ 61,228,069

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 $62,000 at June 30, 2011. 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 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.

Notes to Financial Statements June 30, 2011

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.

Investments are summarized as follows:

Accrued income	$ 93,291
Money market accounts	73,302
U.S. equity mutual funds	14,999,269
Non-U.S. equity mutual funds	16,598,404
U.S. fixed income mutual funds	12,721,072
Non-U.S. fixed income mutual funds	1,829,766
Other mutual funds	7,710,710
Real estate funds	1,065,670
Hedge funds	3,433,759
Private equity	973,661
Other	3,500
	$ 59,502,404

Investment return consists of the following:	
Investment income	$ 345,564
Net realized and unrealized gains on investments reported at fair value	9,615,566
	$ 9,961,130

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, 2011, totaled $122,149.

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, 2011, were $436,480 and are included in rental income. Pledges payable, accounts payable and accrued expenses include $3,169,987 due the University at June 30, 2011.

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, 2011.

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 $211,382 at June 30, 2011.

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, 2011, is $102,233. The income received by the Foundation from this trust was $6,182 for this fiscal year. The Foundation also is the beneficiary of four charitable remainder trusts with a fair value at June 30, 2011, of $811,264.

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 $8,655 in contribution revenue under these agreements during the year ended June 30, 2011.

The annuity obligation at June 30, 2011, of $329,927 was calculated over the terms of the agreements based on the rates for government securities with similar maturities.

Notes to Financial Statements June 30, 2011

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 .61% to 3.3% for the year ended 2011. Pledges receivable consist of the following unconditional promises to give at June 30, 2011:

Due in less than one year	$ 4,929,410
Due in one to five years	12,923,957
Due in more than five years	32,983,587
	50,836,954
Less: Allowance for doubtful accounts	242,202
Unamortized discount	15,621,435
	15,863,637
	$ 34,973,317

Pledges are included in the following net asset classification:

Temporarily Restricted	$ 33,519,577
Permanently Restricted	1,453,740
	$ 34,973,317

Note 9: Leases

Noncancelable leases for space in the Kenneth E. Meyer Alumni Center expire in various years through 2014. Several of these leases contain renewal options for periods ranging from one to three years. Future minimum lease income at June 30, 2011, is as follows: 2012-$573,980; 2013-$104,676; 2014-$41,204.

Note 10: Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2011 are available for the following purposes:

Any purpose, time restricted	$ 21,315
Instruction and academic program support	16,986,844
Student services	2,772,711
Institutional support	32,488,704
Scholarships	13,366,879
Broadcast services	2,510,814
	$ 68,147,267

Note 11: Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2011 are restricted to investments in perpetuity, the revenue from which is expendable to support:

Instruction and academic program support	$ 12,927,842
Student services	653,024
Institutional support	1,496,170
Scholarships	24,996,680
Broadcast services	81,831
	$ 40,155,547

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 73% of the net pledge receivable balance outstanding at June 30, 2011 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.

Current Economic Conditions

The current protracted economic decline continues to present 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 many 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

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Notes to Financial Statements June 30, 2011

Note 13: Disclosures About Fair Value of Assets and Liabilities - continued

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.

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.

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, 2011:

		Fair Value Measurement Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts (included with cash equivalents)	$ 3,946,945	$ 3,946,945	$	$
Money market accounts	73,302	73,302		
U.S. equity mutual funds	14,999,269	14,999,269		
Non-U.S. equity mutual funds	16,598,404	12,027,666	4,570,738	
U.S. fixed income mutual funds	12,721,072	8,698,974	4,022,098	
Non-U.S. fixed income mutual funds	1,829,766	1,829,766		
Other mutual funds	7,710,710	2,293,901	1,562,708	3,854,101
Real estate funds	1,065,670			1,065,670
Hedge funds	3,433,759		3,433,759	
Private equity	973,661			973,661
Other	3,500	3,500		
Investments held in trust:				
Mutual funds	474,715	474,715		
Municipal bonds	41,334		41,334	
Other	397,448			397,448

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, 2010	$ 1,727,532	$ 788,569	$ 814,633	$ 553,559
Total realized and unrealized gains and losses included in change in net assets	126,569	277,101	120,296	(156,111)
Purchases	2,000,000		226,947	
Settlements			(188,215)	
Balance June 30, 2011	$ 3,854,101	$ 1,065,670	$ 973,661	$ 397,448

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.

Missouri State University Foundation

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