



KANSAS MASONIC FOUNDATION, INC.

FINANCIAL STATEMENTS

**YEARS ENDED MARCH 31,
2017 AND 2016**



Draft subject to material changes
7/31/2017

KANSAS MASONIC FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
MARCH 31,

	2017	2016
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 138,163	\$ 193,169
Accounts receivable	140,196	213,024
Student loan receivable	138,703	224,168
50th anniversary pledges receivable, net	301,971	231,822
Prepaid expenses	51,070	18,882
Total current assets	770,103	881,065
Land, property and equipment, net	316,599	325,038
Other assets:		
Long-term investments	24,153,693	23,069,330
Student loan receivable, net of \$10,000 and \$10,000 allowance for doubtful accounts	1,162,493	1,176,579
50th anniversary pledges receivable, net	1,067,277	1,300,213
Beneficial interest in trusts	388,000	324,000
Assets held in trust (at fair value)	260,000	263,000
Other long-term assets (at fair value)	20,000	20,000
Total other assets	27,051,463	26,153,122
Total assets	\$ 28,138,165	\$ 27,359,225
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ 75,496	\$ 153,280
Accrued pension & profit sharing	567	567
Deferred revenue	-	2,200
Total current liabilities	76,063	156,047
Long-term liabilities:		
Endowment payable (at fair value)	3,352,343	3,069,358
Due to beneficiaries	812,997	680,919
Liability under split interest agreement (at fair value)	173,000	192,000
Annuity payable (at fair value)	8,057	9,411
Total long-term liabilities	4,346,397	3,951,688
Total liabilities	\$ 4,422,460	\$ 4,107,735
<u>NET ASSETS</u>		
Unrestricted	8,620,217	9,327,317
Unrestricted - board designated	936,655	817,765
Temporarily restricted	7,713,495	6,690,570
Permanently restricted	6,445,338	6,415,838
Total net assets	23,715,705	23,251,490
Total liabilities and net assets	\$ 28,138,165	\$ 27,359,225

See Notes to the Financial Statements

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KANSAS MASONIC FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended March 31,

	2017				2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenue:								
Contributions	\$ 226,150	\$ -	\$ 2,500	\$ 228,650	\$ 14,192	\$ 62,500	\$ 390,468	\$ 467,160
50th anniversary contributions, net	-	250,889	-	250,889	-	1,886,198	-	1,886,198
Investment return	1,295,095	1,294,945	-	2,590,040	(1,601,461)	(443,853)	-	(2,045,314)
Change in value of split-interest agreement and beneficial interest in trusts	-	-	27,000	27,000	-	-	20,000	20,000
High school band camp	62,645	-	-	62,645	66,325	-	-	66,325
Administrative fees	158,902	-	-	158,902	169,831	-	-	169,831
Miscellaneous	13,250	-	-	13,250	22,071	-	-	22,071
Net assets released from restrictions	522,909	(522,909)	-	-	363,802	(363,802)	-	-
Total support and revenue	2,278,951	1,022,925	29,500	3,331,376	(965,240)	1,141,043	410,468	586,271
Expenses:								
Program	2,148,111	-	-	2,148,111	808,516	-	-	808,516
Support:								
Management and general	292,872	-	-	292,872	334,252	-	-	334,252
Fundraising	426,178	-	-	426,178	389,566	-	-	389,566
Total expenses	2,867,161	-	-	2,867,161	1,532,334	-	-	1,532,334
Change in net assets	(588,210)	1,022,925	29,500	464,215	(2,497,574)	1,141,043	410,468	(946,063)
Net assets at beginning of year	10,145,082	6,690,570	6,415,838	23,251,490	12,642,656	5,549,527	6,005,370	24,197,553
Net assets at end of year	\$ 9,556,872	\$ 7,713,495	\$ 6,445,338	\$ 23,715,705	\$ 10,145,082	\$ 6,690,570	\$ 6,415,838	\$ 23,251,490

See Notes to the Financial Statements

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KANSAS MASONIC FOUNDATION, INC.
STATEMENTS OF FUNCTIONAL ALLOCATION OF EXPENSES
Years ended March 31,

	2017			2016				
	Program	Management & general	Fundraising	Total	Program	Management & general	Fundraising	Total
Contributions, grants and scholarships	\$ 1,272,444	\$ -	\$ -	\$ 1,272,444	\$ 224,040	\$ -	\$ -	\$ 224,040
Salaries	346,221	4,132	7,231	357,584	291,536	5,366	3,585	300,487
50th Anniversary	51,554	41,243	72,175	164,972	8,998	16,832	3,969	29,799
Lodge Activities	52,881	23,547	41,207	117,635	42,198	51,825	28,807	122,830
Outreach	99,087	-	-	99,087	66,605	-	-	66,605
50th Anniversary - Consultant	23,827	21,909	35,950	81,686	12,681	47,905	66,534	127,120
Band	77,318	-	-	77,318	100,115	-	-	100,115
Fundraising	18,333	14,667	43,797	76,797	6,338	23,944	46,820	77,102
Employee benefits	17,510	14,858	25,288	57,656	6,130	22,879	24,902	53,911
Publication	17,692	14,153	24,768	56,613	2,034	7,683	37,743	47,460
Professional fees	16,712	13,727	23,686	54,125	3,931	13,339	14,784	32,054
Computer	16,534	13,757	23,655	53,946	4,748	17,727	23,539	46,014
Travel and meetings	16,434	13,575	23,396	53,405	5,074	19,169	21,548	45,791
Postage and shipping	16,471	13,177	23,074	52,722	8,821	14,422	15,839	39,082
Staff development	11,128	9,005	15,673	35,806	608	2,298	2,502	5,408
Payroll taxes	9,891	7,913	13,847	31,651	3,036	11,469	12,480	26,985
Advertising	8,460	9,162	14,024	31,646	3,526	13,320	14,494	31,340
Bad debts	7,018	26,490	-	33,508	-	-	-	-
Supplies	8,279	6,932	11,532	26,743	3,492	12,183	14,458	30,133
Kansas Mason	25,326	20,261	(22,329)	23,258	3,141	11,864	4,623	19,628
C Club expense	6,672	5,337	9,340	21,349	1,681	530	10,412	12,623
Directors and officers	5,513	4,867	7,718	18,098	-	6,657	-	6,657
Utilities	5,351	4,291	7,502	17,144	2,325	8,276	9,014	19,615
Repairs and maintenance	4,391	3,526	6,159	14,076	700	2,644	2,877	6,221
Depreciation	3,022	2,418	4,231	9,671	1,018	4,345	4,185	9,548
Insurance	1,764	1,504	2,554	5,822	1,270	4,848	5,222	11,340
Property taxes	1,811	1,449	2,536	5,796	683	2,582	2,810	6,075
Printing and copying	1,570	1,389	2,305	5,264	1,928	7,285	7,928	17,141
Dues and subscriptions	1,637	1,309	2,291	5,237	538	2,282	2,311	5,131
Miscellaneous	2,859	(2,047)	4,004	4,816	1,122	1,921	4,614	7,657
Investment expense	401	321	564	1,286	199	657	836	1,692
Lodge online auction	-	-	-	-	-	-	2,730	2,730
Total expenses	\$ 2,148,111	\$ 292,872	\$ 426,178	\$ 2,867,161	\$ 808,516	\$ 334,252	\$ 389,566	\$ 1,532,334

See Notes to the Financial Statements

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KANSAS MASONIC FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
Years ended March 31,

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 464,215	\$ (946,063)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	9,671	9,548
Realized and unrealized (gain)/loss on investments	(2,805,755)	1,285,678
Non-cash investment earnings and fees	215,715	186,945
Loss on sale of real estate held for development	-	572,691
Decrease (increase) in operating assets		
Accounts receivable	72,828	(161,609)
50th anniversary pledges receivable	162,787	(1,532,035)
Prepaid expenses	(32,188)	(10,447)
Beneficial interest in trusts	(64,000)	(32,000)
Assets held in trust	3,000	-
Increase (decrease) in operating liabilities		
Accounts payable	(77,784)	72,002
Accrued pension & profit sharing	-	567
Deferred revenue	(2,200)	(1,700)
Endowment payable	282,985	(375,705)
Due to beneficiaries	132,078	40,374
Liability under split interest agreement	(19,000)	(5,000)
Annuity payable	(1,354)	(1,100)
	<u>(1,659,002)</u>	<u>(897,854)</u>
Cash flows from investing activities		
Student loans advanced	(124,617)	(205,254)
Payments on student loans	224,168	259,468
Proceeds from sale of investments	4,211,043	2,449,359
Purchase of investments	(2,705,366)	(1,908,876)
Proceeds on sale of golf course	-	327,409
Purchase of property and equipment	(1,232)	(1,309)
	<u>1,603,996</u>	<u>920,797</u>
Net cash flows from investing activities	<u>1,603,996</u>	<u>920,797</u>
Net (decrease) increase in cash and cash equivalents	<u>(55,006)</u>	<u>22,943</u>
Cash and cash equivalents, beginning of year	<u>193,169</u>	<u>170,226</u>
Cash and cash equivalents, end of year	<u>\$ 138,163</u>	<u>\$ 193,169</u>

See Notes to the Financial Statements

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KANSAS MASONIC FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

(1) **Summary of significant accounting policies**

This summary of significant accounting policies of the Kansas Masonic Foundation, Inc. (Foundation) is presented to assist in understanding the Foundation's financial statements.

Organization - The Kansas Masonic Foundation, Inc. is a non-profit organization incorporated in 1966 for the purposes of educational, charitable, and scientific endeavors. The Foundation's major program is to support cancer research and education programs at the Kansas Masonic Cancer Research Institute. Other programs include providing educational loans and scholarships to Kansas college students and support of the Kansas Masonic All-State High School Marching Band Camp.

Basis of presentation - Assets, liabilities, net assets, revenues and expenses are recognized on the accrual basis of accounting.

The Foundation reports gifts as restricted support if they are received with donor stipulations that limit the use of the donated assets. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Net assets were released from restrictions by incurring expenses satisfying the restricted purpose or by the passage of time when there is an implied time restriction.

Permanently restricted net assets represent funds that are subject to restrictions of donative instruments requiring that the principal be invested in perpetuity and the income only be used by the Foundation.

The Foundation receives certain contributions, grants and funding, which are to be used to pay for various program costs. Due to the general nature of the use of these funds, they are included as additions to unrestricted net assets.

Depreciation - Property and equipment are stated at cost. Expenditures for additions and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense currently.

Depreciation is determined on the straight-line basis with estimated useful lives as follows:

Building	35 years
Furniture and equipment	5-7 years
Software	3 years
Computer	3 years

Investments - Investments received by the Foundation by gift, bequest or devise are stated at their fair value as of the date of receipt. Fair value is determined by appraisal, quoted market, etc. At year-end, investments are stated at fair market value. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases and decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

KANSAS MASONIC FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

Investment securities are exposed to various risks, such as interest rate, market fluctuation and credit risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in risks in the near term would materially affect investments and the amounts reported in the statements of financial position.

Estimates - Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used. Management's estimates and assumptions include, but are not limited to, the fair values of investments, beneficial interest in trusts, assets held in trust and liabilities for endowment payable and liability under split interest agreement, useful lives and salvage values of fixed assets and the functional allocation of expenses.

Income taxes - The Foundation is a not-for-profit organization as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Cash and cash equivalents defined for statement of cash flows - Cash includes cash in checking and savings accounts.

Impairment - The Foundation evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Functional expenses - The costs of providing the various programs, fundraising, and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and fundraising activities benefited.

Student loan receivable – Student loan receivables are carried at unpaid principal balances, less an allowance for estimated uncollectible amounts and unearned discounts. Management's periodic evaluation of the adequacy of the allowance is based on past loan loss experience, specific impaired loans, adverse situations that may affect the borrower's ability to repay, and current economic conditions. Past due status is determined based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The Foundation's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, or for other reasons. Interest is not accrued on outstanding loans until they are in repayment status upon the student's completion or withdraw from school. At the time the loan enters the repayment phase, interest is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

KANSAS MASONIC FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

50th anniversary pledges receivable – Pledges are temporarily restricted assets. Pledges are recorded as a receivable and revenue when pledged. Unconditional pledges receivable that are expected to be received within one year are recorded at their net realizable value. Unconditional pledges receivable that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on those amounts are determined using the risk-free rates applicable to the years in which the pledges are received. On a periodic basis, the Organization evaluates its pledges receivable and determines the necessity for an allowance for doubtful accounts, based on history of past write-offs, collection and other current conditions. Amounts allowed for in each year are shown net of 50th anniversary contribution revenue. For the year ended March 31, 2017 and 2016, 50th anniversary contributions revenue is shown net of \$500,000 and \$0, respectively. A pledge receivable is written off when it is determined that all collection efforts have been exhausted. Because of the inherent uncertainties in estimating the present value and allowance for doubtful accounts, it is at least reasonably possible that the estimates used will change within the near term.

The Foundation has been notified of additional intentions to give that are expected to be collected in future periods, principally through wills and revocable trusts. As such, these intentions to give are considered conditional and have not been recorded in the financial statements.

Advertising costs - The Foundation expenses advertising costs as they are incurred. Advertising expenses for the years ended March 31, 2017 and 2016 were \$31,646 and \$31,340, respectively.

(2) Cash and cash equivalents

The Federal Deposit Insurance Corporation insures amounts held by each institution in the Foundation's name up to \$250,000. At various times during the fiscal year, the Foundation's cash in bank balances exceeded the federally insured limits

(3) Fair value measurements

Financial reporting standards establish a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined 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 and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

KANSAS MASONIC FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

Management endeavors to utilize the best available information in measuring fair value. The following table summarizes the best valuation of assets and liabilities measured at fair value by the above pricing levels as of March 31, 2017.

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments				
Money market funds	\$ 232,772	\$ 232,772	\$ -	\$ -
NAV Investments				
Equities - Domestic	9,636,507			
Equities - Opportunistic	88,017			
Equities - International	9,269,970			
Private equity	426,418			
Real assets	909,819			
Bond funds	<u>3,590,190</u>			
Total NAV Investments	<u>23,920,921</u>			
Total investments	<u>\$ 24,153,693</u>			
Other assets				
50th anniversary pledges receivable	\$ 1,369,248	\$ -	\$ -	\$ 1,369,248
Beneficial interest in trust	388,000	-	-	388,000
Assets held in trust	260,000	141,000	-	119,000
Gift annuities	20,000	-	-	20,000
Liabilities				
Endowment payable	3,352,343	-	-	3,352,343
Annuity liability	8,057	-	-	8,057
Liability under split interest agreement	173,000	-	-	173,000

KANSAS MASONIC FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

Management endeavors to utilize the best available information in measuring fair value. The following table summarizes the best valuation of assets and liabilities measured at fair value by the above pricing levels as of March 31, 2016.

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments				
Money market funds	\$ 49,920	\$ 49,920	\$ -	\$ -
NAV Investments				
Equities - Domestic	10,212,848			
Equities - Opportunistic	145,865			
Equities - International	8,471,144			
Real assets	920,107			
Bond funds	3,269,446			
Total NAV Investments	<u>23,019,410</u>			
Total investments	<u>\$ 23,069,330</u>			
Other assets				
50th anniversary pledges receivable	\$ 1,532,035	\$ -	\$ -	\$ 1,532,035
Beneficial interest in trust	324,000	-	-	324,000
Assets held in trust	263,000	144,000	-	119,000
Gift annuities	20,000	-	-	20,000
Liabilities				
Endowment payable	3,069,358	-	-	3,069,358
Annuity liability	9,411	-	-	9,411
Liability under split interest agreement	192,000	-	-	192,000

KANSAS MASONIC FOUNDATION, INC.
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The following is a reconciliation of the Foundation's assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended March 31:

	<u>2017</u>	<u>2016</u>
Total Level 3 - beginning of the year	\$ 5,265,804	\$ 4,083,574
Change in value of beneficial interest in trust	11,000	15,000
Receipt of beneficial interest in trust	53,000	17,000
Receipt of pledges receivable	664,692	1,683,035
Payments on pledges receivable	(296,389)	(151,000)
Write off of pledges receivable	(26,490)	-
Allowance for uncollectible pledges receivable	(500,000)	-
Amortization of discount on pledges receivable	(4,600)	-
Change in annuity liability	(1,354)	(1,100)
Change in value of endowment payable	282,985	(375,705)
Liability under split interest agreement	<u>(19,000)</u>	<u>(5,000)</u>
 Total Level 3 - end of the year	 <u><u>\$ 5,429,648</u></u>	 <u><u>\$ 5,265,804</u></u>

The table below summarizes the fair value and other pertinent liquidity information of the offshore hedge funds included in investments by major category:

	March 31, 2017 Fair value	Redemption Frequency			Redemption Notice Period
		Monthly	Quarterly	Annual	
Equities - Opportunistic	\$ 88,017	\$ -	\$ 88,017	\$ -	60-90 days
Real assets	<u>46,069</u>	<u>-</u>	<u>46,069</u>	<u>-</u>	60 days
 Total	 <u><u>\$ 134,086</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 134,086</u></u>	 <u><u>\$ -</u></u>	
	March 31, 2016 Fair value	Redemption Frequency			Redemption Notice Period
		Monthly	Quarterly	Annual	
Equities - Opportunistic	\$ 145,865	\$ -	\$ 145,865	\$ -	60-90 days
Real assets	<u>56,357</u>	<u>-</u>	<u>56,357</u>	<u>-</u>	60 days
 Total	 <u><u>\$ 202,222</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 202,222</u></u>	 <u><u>\$ -</u></u>	

The Foundation has investments in certain limited partnerships which have capital commitments outstanding at March 31, 2017 as follows:

Summit Strategies COI Fund I, LP	<u>Amount</u> <u>\$696,405</u>
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This fund is a Private Equity Limited Partnership and is currently illiquid. In the first several years the fund will call portions of what Kansas Masonic Foundation has committed. It is expected that within 5 to 7 years, this fund will start liquidating and distributions will be made to the Foundation. The intent of this fund is to be fully distributed and liquidated within 10 years.

KANSAS MASONIC FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants used to make valuation decisions, including assumptions about risk. Inputs may include market price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. The classification of a financial asset within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

However, the determination of what constitutes “observable” requires significant judgment by management. Management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of a fund within the hierarchy is based upon the pricing transparency of that fund and does not necessarily correspond to management’s perceived risk of that fund.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year ended March 31, 2017 and 2016.

Publicly-held Securities

Publicly-held equity investments that are traded on an active exchange are valued at the quoted market prices based on the last sale price on the measurement date. Quoted market prices in an active market are classified as a Level 1 input. If an active market does not exist for such publicly-held equity investments, alternate valuation models using Level 2 or Level 3 inputs may be used to determine fair value.

50th Anniversary Pledges Receivable

Fair value for the 50th anniversary pledges receivable is determined based on the present value of the expected future cash flows from the commitments of donors.

Beneficial Interest in Trusts

Fair value for the beneficial interest in trusts is determined based on the present value of the expected future cash flows from the trust.

Assets Held in Trust

Level 3 fair value measurements in assets held in trust includes farm real estate. The fair value for farm real estate held in trust is determined using the market approach based primarily on current appraised values and other market information for similar property. The fair value option was chosen to measure this asset in order to mitigate volatility in reported changes in net assets.

KANSAS MASONIC FOUNDATION, INC.
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Offshore Hedge Funds

Investments in offshore hedge funds are generally valued at the reported value provided by or on behalf of the investment fund, which valuations are prepared in accordance with such investment fund's governing documents. Management considers this a reliable representation of fair value if the investment fund is accepting subscriptions and processing redemptions based on this reported value. Management may take discounts to supplied net asset valuations where the Fund cannot verify the accuracy or where liquidity is restricted. The amount of liquidity provided to redemptions is dictated by such fund's governing documents. The amount of liquidity provided to investors in a particular fund is generally consistent with the liquidity and risk associated with the underlying portfolio (i.e. the more liquid the investments in the portfolio, the greater the liquidity provided to the investors). Liquidity of individual hedge funds varies based on various factors and may include "gates", "holdbacks" and "side pockets" imposed by the manager of the hedge fund, as well as redemption fees which may also apply. As these investments are generally illiquid in whole or in part, they are generally classified as net asset value investments (NAV).

Because of the inherent uncertainty of valuation of investments in offshore hedge funds, the estimated fair values used for these investments may differ significantly from values that will eventually be realized upon an actual liquidation of the investment, and such differences could be material.

Limited Partnerships

Management generally uses the capital balance reported by the investee as the primary input to its valuation; however, adjustments to the reported capital balance may be made based on various factors, including any restrictions or illiquidity on such interests.

Liabilities

Fair value for the endowment payable, liability under split interest agreements and gift annuity liabilities is determined based on the present value of the expected future cash flows to be paid to beneficiaries or other organizations under various agreements. The fair value option was chosen to measure these liabilities in order to eliminate changes in net assets from being reported that are not representative of economic events as the related investments are reported at fair value and unrealized gains and losses recorded on those assets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. Management evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets. For the years ended March 31, 2017 and 2016, there were no significant transfers in or out of Levels 1, 2 or 3.

KANSAS MASONIC FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

(4) Investment Return

Investment return consists of the following for the years ending March 31,

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 13,145	\$ 64,899
Net capital gains	152,261	66,980
Net change in fair value on investments	2,653,494	(1,352,558)
Loss on sale of real estate held for investment	-	(572,691)
Investment expenses	<u>(228,860)</u>	<u>(251,944)</u>
Total investment return	<u>\$ 2,590,040</u>	<u>\$ (2,045,314)</u>

(5) Land, property and equipment

A summary of the accounts and related accumulated depreciation at March 31 is as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 50,000	\$ -	\$ 50,000	\$ -
Building	305,817	43,689	305,817	36,407
Furniture and equipment	10,304	7,544	10,304	6,068
Software	-	-	1,500	1,125
Computer	2,541	830	1,309	292
Total	<u>\$ 368,662</u>	<u>\$ 52,063</u>	<u>\$ 368,930</u>	<u>\$ 43,892</u>

(6) Beneficial interest in trusts

Beneficial interest in Buechner Trust - The Foundation has been named a remainder beneficiary of the Buechner trust. The Foundation does not exercise control over the trust assets. Under the trust, the income beneficiaries are to receive a distribution from the trust each year. Upon the death of the income beneficiaries, 30% of the remaining assets will be distributed to the Foundation. The amount received by the Foundation is to be invested in perpetuity with earnings used for purposes as specified by the donor. The Foundation has recorded a permanently restricted asset for the beneficial interest in trust in the amount of \$256,000 and \$246,000 at March 31, 2017 and 2016, respectively. The beneficial interest in the trust asset is recorded at fair value, which is measured at the present value of the estimated future cash flows. The income beneficiary's life expectancy and a discount rate of 7% was used in determining the present value of the estimated future cash flows from the trust.

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Beneficial interest in Fellers Trust - The Foundation has been named a beneficiary of the Fellers trust. As a beneficial interest in a perpetual trust, the Foundation is receiving 17% of the earnings each year. The Foundation has recorded a permanently restricted asset for the beneficial interest in trust in the amount of \$62,000 and \$61,000 as of March 31, 2017 and 2016. As a perpetual trust, the fair value of the Foundation's interest in the trust is calculated as their proportionate share of the total value of the plan assets. Income received from the trust is restricted to certain purposes as designated by the donor.

Beneficial interest in Heide Trust - The Foundation has been named a beneficiary of the Heide trust. As a beneficial interest in a perpetual trust, the Foundation is receiving 2.5% of the earnings each year. The Foundation has recorded a permanently restricted asset for the beneficial interest in trust in the amount of \$17,000 as of March 31, 2017 and 2016. As a perpetual trust, the fair value of the Foundation's interest in the trust is calculated as their proportionate share of the total value of the plan assets. Income received from the trust is restricted to certain purposes as designated by the donor.

Beneficial interest in Meeker Trust – During the year ended March 31, 2017 the Foundation was granted a remainder beneficiary of the Meeker trust. The Foundation does not exercise control over the trust assets. Under the trust, the income beneficiaries are to receive a distribution from the trust each year and the trust will terminate in 2037 when all assets will be distributed to the income beneficiaries. The Foundation is entitled to 2% of the annual earnings distributed and 2% of the remaining value upon termination of the trust. There are no restrictions on any amounts received from the trust. The Foundation has recorded a temporarily restricted asset for the beneficial interest in trust in the amount of \$53,000 and \$0 at March 31, 2017 and 2016, respectively. The beneficial interest in the trust asset is recorded at fair value, which is measured at the present value of the estimated future cash flows. A discount rate of 0.25% was used in determining the present value of the estimated future cash flows from the trust based on the yield rate expected on the investments, which include only money market funds.

Assets held in Neiswender Trust and liability under split interest agreement – The Foundation is the trustee of the Raymond Neiswender Trust, which is a perpetual trust. There are several income beneficiaries, including the Foundation, currently receiving a portion of the earnings on an annual basis, but no beneficiary will ever receive trust assets as the trust is to continue on in perpetuity. The Foundation is the ultimate beneficiary of all trust income upon the death of each of the income beneficiaries. Assets held in the trust by the Foundation totaled \$260,000 and \$263,000 at March 31, 2017 and 2016, and are reported at fair market value. Assets held in trust included cash, marketable securities, savings bonds and farm real estate. The Foundation has recorded a liability under this split interest agreement of \$173,000 and \$192,000 at March 31, 2017 and 2016, respectively. This liability represents the other income beneficiaries' interest in the future earnings and is reported at fair value as determined by the other income beneficiaries' proportionate share of the value of the assets held in the trust. On an annual basis, the Foundation revalues the liability based on the value of the assets held in the trust.

Beneficial interest in Studebaker Trust – The Foundation has been named a remainder beneficiary in the Studebaker trust, but the Foundation does not have all of the information necessary to calculate the present value of the expected future cash flows and as a result has not recorded the beneficial interest in this trust in the financials. The Foundation will receive a portion of the assets remaining upon the death of the income beneficiaries.

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(7) Real estate held for investment

During the year-ended March 31, 2015, the Foundation received a contribution of the Kingman Country Club which included all assets of the club, including the golf course. A contribution and real estate asset were recorded as a result of this transaction at \$900,000 which was the fair value of the property based on an independent appraisal.

During the year-ended March 31, 2016, the Foundation sold the donated real estate in a public auction for \$379,500 less closing costs of \$52,191.

(8) Endowment payable

Endowment payable includes amounts due to the University of Kansas Endowment Association (KU) under agreements the Foundation has that pledge all future earnings on specific Foundation investments to KU. The endowment payable liability was initially recorded at fair value and is revalued each year. Since these agreements require that earnings are to be paid to KU in perpetuity along with a transfer of the original investments to KU should the Foundation cease to exist, the fair value of this liability has been determined to be equal to the fair value of the original investments held by the Foundation.

(9) Due to beneficiaries

Various organizations or donors have transferred assets to the Foundation through an agency transaction. The Foundation has no variance power over the funds; accordingly, the Foundation has recognized the assets received as a liability in the accompanying statement of financial position.

Amounts due to beneficiaries are comprised of the following at March 31:

	<u>2017</u>	<u>2016</u>
Larrick Memorial Fund	\$ 111,895	\$ 98,130
Reiserer Memorial Fund	350,335	306,738
Topeka High 12 Club Fund	15,584	14,125
Golden Rule Lodge Fund	93,864	83,187
Orient Lodge Fund	16,256	14,256
Royal Arch Mason of Topeka Fund	12,427	10,898
Union Lodge No. 7 Fund	63,756	55,913
Henri Lodge No 190	42,085	37,028
Ninnescah Lodge #230	69,150	60,644
Winfield Lodge #110	30,168	-
Gardner Lodge #190, AF&AM	7,477	-
	<u>7,477</u>	<u>-</u>
Total	<u>\$ 812,997</u>	<u>\$ 680,919</u>

KANSAS MASONIC FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

(10) Restricted Net Assets

Net assets are restricted for the following purposes as of March 31:

	<u>2017</u>	<u>2016</u>
Temporarily restricted net assets:		
Student loans and scholarships	\$ 5,132,171	\$ 4,728,131
Charitable and scientific purpose endowment	2,581,324	1,962,439
Permanently restricted net assets:		
Student loan and scholarships endowment	1,955,980	1,955,980
Charitable and scientific purpose endowment	<u>4,489,358</u>	<u>4,459,858</u>
 Total	 <u>\$ 14,158,833</u>	 <u>\$ 13,106,408</u>

(11) Pension Plans

The Foundation has a simplified employee pension plan that includes all eligible employees. The Foundation contributed 5% of eligible compensation during fiscal years 2017 and 2016.

The Foundation also has a tax-deferred 403(b) qualified retirement plan for all eligible employees. The plan allows eligible participants to defer a percentage of their salary to the plan. All participants are 100% vested upon entering the plan, and employee contributions are non-forfeitable at all times. During fiscal years 2017 and 2016, the Foundation elected to contribute 50% of each participant's deferral up to 3% of eligible compensation.

Total pension expense for all plans for fiscal years 2017 and 2016 was \$30,528 and \$24,820, respectively.

(12) Concentrations

The Foundation has one vendor that accounts for 13% of purchases for the year ended March 31, 2017. The Foundation has two vendors that account for 27% of purchases for the year ended March 31, 2016.

(13) Endowment Funds

The Foundation's endowment funds have been established for a variety of purposes to provide income in support of certain designated activities. Endowments include donor-designated and Board designated funds, and are classified and reported in net assets based on the existence or absence of donor-imposed restrictions.

During 2008, Kansas adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which provides guidance and authority to charitable organizations regarding the management and investment of endowment funds.

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The Board of Directors has interpreted UPMIFA as requiring the 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. The Foundation generally classifies as permanently restricted net assets (a) the original value of the gifts donated to permanent endowments, (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 the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association.

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the funds
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

The Foundation has adopted investment and spending policies for endowment assets that have long-term investment objectives to preserve the purchasing power of the Foundation's investments and to provide for a growing, spendable revenue stream to support the Foundation's expenses and mission. As the Foundation has an infinite life and the investment horizon is long-term, reduction of volatility in market value is a secondary objective. In pursuing the Foundation's investment objectives, management endeavors to achieve a total return, net of all fees, that meets and exceeds relevant market indices over time.

In light of the portfolio's long-term horizon, the portfolio can assume an above-average level of risk, when risk is defined as standard deviation of returns. Reasonable consistency of returns is desirable as a means of providing stability to the process of managing the portfolio. The asset allocation and the investment manager structure should ensure adequate diversification in order to reduce the volatility of investment returns over the long-term.

The Foundation has a policy of allowing for the appropriation for distribution each year, 5% of its average investment fair value over the prior twelve quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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Endowment net asset composition at March 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (17,986)	\$ 7,713,495	\$ 6,445,338	\$ 14,140,847
Board designated endowment funds	<u>936,655</u>	<u>-</u>	<u>-</u>	<u>936,655</u>
Total	<u>\$ 918,669</u>	<u>\$ 7,713,495</u>	<u>\$ 6,445,338</u>	<u>\$ 15,077,502</u>

Changes in endowment net assets for the year ended March 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 479,977	\$ 6,690,570	\$ 6,415,838	\$ 13,586,385
Contributions	4,181	250,890	2,500	257,571
Investment return: Interest, dividends and realized gains (losses)	434,510	1,294,945	-	1,729,455
Change in beneficial interest in trust	-	-	27,000	27,000
Appropriated for expenditure	<u>-</u>	<u>(522,909)</u>	<u>-</u>	<u>(522,909)</u>
Endowment net assets, end of the year	<u>\$ 918,668</u>	<u>\$ 7,713,496</u>	<u>\$ 6,445,338</u>	<u>\$ 15,077,502</u>

Endowment net asset composition at March 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (337,788)	\$ 6,690,570	\$ 6,415,838	\$ 12,768,620
Board designated endowment funds	<u>817,765</u>	<u>-</u>	<u>-</u>	<u>817,765</u>
Total	<u>\$ 479,977</u>	<u>\$ 6,690,570</u>	<u>\$ 6,415,838</u>	<u>\$ 13,586,385</u>

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Changes in endowment net assets for the year ended March 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 880,756	\$ 5,549,527	\$ 6,005,370	\$ 12,435,653
Contributions	-	1,948,698	390,468	2,339,166
Investment return:				
Interest, dividends and realized gains (losses)	(341,285)	(443,853)	-	(785,138)
Change in beneficial interest in trust	-	-	20,000	20,000
Appropriated for expenditure	<u>(59,494)</u>	<u>(363,802)</u>	<u>-</u>	<u>(423,296)</u>
Endowment net assets, end of the year	<u>\$ 479,977</u>	<u>\$ 6,690,570</u>	<u>\$ 6,415,838</u>	<u>\$ 13,586,385</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were \$17,986 and \$337,788 as of March 31, 2017 and 2016, respectively. These deficiencies result from unfavorable market fluctuations and continued appropriation for certain programs as deemed prudent by the Board of Directors.

(14) 50th anniversary pledges receivable

During the year ended March 31, 2016, the Foundation launched a 50th Anniversary “Building Kansas” Campaign. This campaign requested multi-year pledges to support the nine foundational campaign pillars. 50th anniversary pledges receivable represent unconditional promises to give as follows:

	<u>2017</u>	<u>2016</u>
Unconditional promises to give	\$ 2,035,448	\$ 1,693,635
Less unamortized discount	(166,200)	(161,600)
Less allowance for uncollectible pledges receivable	<u>(500,000)</u>	<u>-</u>
Net 50th anniversary pledges receivable	<u>\$ 1,369,248</u>	<u>\$ 1,532,035</u>

Pledges receivable with due dates extending beyond one year are discounted using Treasury bill rates for similar term investments in the year the pledge is originally recorded. The applicable rates at March 31, 2017 and 2016 was 3.4% and 2.8%, respectively.

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The pledges receivable are due as follows:

In one year or less (included in current assets)	\$ 400,964
Between one year and five years	1,040,495
More than five years	593,989
Total 50th anniversary pledges receivable	<u>\$ 2,035,448</u>

In addition to the pledge receivables that have been recorded, the Foundation has received a verbal promise to give from one donor for \$500,000 payable over 10 years. Since, the pledge has been deemed revocable; it is not recorded in the financial statements. The Foundation believes the entire amount will be collected although the timing and amount of payments cannot be determined.

(15) Conditional promises to give to other organizations

The Foundation has made promises to give to university foundations across Kansas that are not recorded as a liability in the financial statements because they have been deemed conditional. These promises to give are conditional on annual review and approval by the Foundation's Board of Directors and available funding. The terms of the conditional promises to give are as follows:

Conditional promise to give to Emporia State University Foundation entered into on March 27, 2015 for the creation of the Kansas Masonic Literacy Center Fund. Total promise to give of \$4,000,000 to be paid over ten years. As of March 31, 2017, \$75,000 had been paid on this agreement.

Conditional promise to give to Kansas State University Foundation entered into on April 29, 2015 for the creation of the Kansas Pride Excellence Fund. Total promise to give of \$1,000,000 to be paid over five years. As of March 31, 2017, no payments have been made for this agreement.

Conditional promise to give to Kansas State University Foundation entered into on April 29, 2015 for the creation of the Kansas Entrepreneurship Challenge Excellence Fund. Total promise to give of \$750,000 to be paid over five years. As of March 31, 2017, no payments have been made for this agreement.

Conditional promise to give to Kansas State University Foundation entered into on April 11, 2015 for the creation of the Military and Veteran Affairs Excellence Fund. Total promise to give of \$750,000 to be paid over five years. As of March 31, 2017, no payments have been made for this agreement.

Conditional promise to give to Fort Hays State University for \$250,000 to be paid over five years. As of March 31, 2017, no payments have been made for this agreement.

(16) Subsequent events

The Foundation has evaluated subsequent events through **August 25, 2017**, the date which the financial statements were available to be issued. No significant items were noted during this evaluation that would require disclosure in the financial statements or accompanying footnotes.