WICHITA STATE UNIVERSITY FOUNDATION AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2018

Independent Auditor's Report

The Board of Directors
Wichita State University Foundation and Affiliate
Wichita, Kansas

We have audited the accompanying consolidated financial statements of Wichita State University Foundation and Affiliate (collectively referred to as the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Report on the Financial Statements

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wichita State University Foundation and Affiliate as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 consolidated financial statements, and our report dated October 4, 2017, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Swindoll, Janzen, Hawk & Loyd, LLC

September 28, 2018
Wichita, Kansas

WICHITA STATE UNIVERSITY FOUNDATION
AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018
(With Summarized Financial Information at June 30, 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 21,909,387	$ 13,463,255
Pledges receivable, less allowance for uncollectible pledges (2018, $846,863; 2017, $619,565)	31,916,934	23,240,296
Investments	259,061,571	236,419,927
Investment at equity	2,930,789	3,145,000
Mortgage receivable	32,683	35,779
Real estate	597,175	597,175
Buildings, equipment, furniture and software, at cost, less accumulated depreciation	377,767	336,162
Cash surrender value of life insurance	4,908,214	4,791,958
Collections	15,907,324	15,834,823
Other assets	3,008,110	3,134,562
TOTAL ASSETS	$ 340,649,954	$ 300,998,937
LIABILITIES		
Accounts payable and accrued expenses	$ 590,396	$ 469,542
Annuities payable	671,976	817,257
Due to WSU Alumni Association	2,002,003	1,809,283
Due to WSU Board of Trustees	7,739,931	6,314,153
Due to WSU Departments	338,955	387,725
Due to WSU Intercollegiate Athletic Association, Inc.	10,272,136	10,149,830
TOTAL LIABILITIES	21,615,397	19,947,790
NET ASSETS		
Unrestricted		
Undesignated	7,416,704	6,903,928
Designated by the Board for endowment purposes	861,001	845,983
Total unrestricted	8,277,705	7,749,911
Temporarily restricted	118,896,348	93,203,005
Permanently restricted	191,860,504	180,098,231
TOTAL NET ASSETS	319,034,557	281,051,147
TOTAL LIABILITIES AND NET ASSETS	$ 340,649,954	$ 300,998,937

See Notes to Consolidated Financial Statements

WICHITA STATE UNIVERSITY FOUNDATION
AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year Ended June 30, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)

	2018				2017
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
REVENUE, GAINS, AND OTHER SUPPORT					
Contributions	$ 522,875	$ 26,664,022	$ 11,762,273	$ 38,949,170	$ 15,846,933
Net investment return	439,572	14,803,189	-	15,242,761	21,443,954
Gain (loss) on collection item	-	251,500	-	251,500	(255,000)
Other income	1,703,544	1,552,944	-	3,256,488	4,795,750
Net assets released from restriction	17,578,312	(17,578,312)	-	-	-
TOTAL REVENUE, GAINS, AND OTHER SUPPORT	20,244,303	25,693,343	11,762,273	57,699,919	41,831,637
EXPENSES					
Program Services:					
Scholarships	5,738,528	-	-	5,738,528	5,972,148
University support	8,984,088	-	-	8,984,088	8,019,024
Supporting activities:					
Management and general	2,566,136	-	-	2,566,136	2,357,032
Fund raising	2,427,757	-	-	2,427,757	2,399,232
TOTAL EXPENSES	19,716,509	-	-	19,716,509	18,747,436
CHANGE IN NET ASSETS	527,794	25,693,343	11,762,273	37,983,410	23,084,201
NET ASSETS, BEGINNING OF YEAR	7,749,911	93,203,005	180,098,231	281,051,147	257,966,946
NET ASSETS, END OF YEAR	$ 8,277,705	$ 118,896,348	$ 191,860,504	$ 319,034,557	$ 281,051,147

See Notes to Consolidated Financial Statements

WICHITA STATE UNIVERSITY FOUNDATION
AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended June 30, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 37,983,410	$ 23,084,201
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	44,020	43,134
(Gain) Loss on collection item	(251,500)	255,000
Gain on equity method investment	(24,589)	-
Contributions received for permanent endowment	(10,326,838)	(5,703,826)
Net realized and unrealized loss (gain) on investments	(11,717,677)	(15,512,324)
Fair value of donated collection items	(446,001)	(111,893)
Fair value of donated investments and real estate	(1,551,309)	2,521,739
Donated facilities recorded as contributions	(198,308)	(257,216)
Donated facilities recorded as rent expense	198,308	257,216
Increase in cash surrender value of life insurance	(116,256)	(386,518)
Decrease (increase) in operating assets:		
Pledges receivable	(8,676,638)	331,290
Other assets	126,452	(2,397,233)
Increase in operating liabilities:		
Accounts payable and accrued expenses	120,854	(67,327)
Annuities payable	(145,281)	(101,108)
NET CASH FLOWS FROM OPERATING ACTIVITIES	5,018,647	1,955,135
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of buildings, equipment, furniture & software	(85,625)	-
Proceeds on sale of collections	625,000	45,000
Net purchases of investments	(9,372,658)	(8,828,106)
Distributions received from equity method investment	238,800	-
Principal payments received on mortgage receivable	3,096	2,865
NET CASH FLOWS FROM INVESTING ACTIVITIES	(8,591,387)	(8,780,241)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions received for permanent endowment	10,326,838	5,703,826
Increase in due to affiliated entities	1,692,034	976,884
NET CASH FLOWS FROM FINANCING ACTIVITIES	12,018,872	6,680,710
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,446,132	(144,396)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,463,255	13,607,651
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 21,909,387	$ 13,463,255

See Notes to Consolidated Financial Statements

WICHITA STATE UNIVERSITY FOUNDATION AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Nature of operations - Wichita State University Foundation (the "Foundation") provides support for the educational undertakings of Wichita State University and all related beneficial activities. It derives most of its revenue from contributions and earnings on investments. WSUF Real Estate Holdings, LLC (the "LLC") is a wholly-owned subsidiary of the Foundation formed during 2016. It derives its revenue from donated real estate. All activity from the LLC has been included within the consolidated financial statements. These entities are collectively referred to as the "Organization". Significant inter-company accounts and transactions have been eliminated.

Use of estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial statement presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets are those which have been limited by donors to a specified time period or purpose. Permanently restricted net assets are restricted by donors to be maintained in perpetuity by the Organization.

Basis of accounting - The Organization's policy is to prepare the consolidated financial statements on the accrual basis of accounting; consequently, the consolidated financial statements reflect all significant receivables, payables, and other liabilities.

Income taxes - The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Foundation is subject to federal income tax on any unrelated business taxable income.

The LLC does not incur income taxes; instead, its earnings are included in the Foundation's income tax return and taxed depending on the Foundation's tax situation. The consolidated financial statements, therefore, do not include a provision for income taxes for the LLC.

The Organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the financial statements during the period which, based on all available evidence, management believes it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Foundation. The Organization did not have any material uncertain tax positions as of June 30, 2018.

(1) Summary of significant accounting policies (continued)

Prior year comparative totals - The consolidated financial statements include certain prior year summarized financial information in total, but not by net asset class. Such information does not constitute a complete presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's 2017 financial statements from which the summarized information was derived.

Contributions - Contributions of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Contributions received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets, depending on the nature of the restriction. 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. Contributions having donor stipulations that are satisfied in the period the contribution is received are reported as unrestricted revenue and net assets.

Donated property and equipment - Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated facilities and services – Donated facilities are valued at their fair rental value. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets; or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Donated assets - Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

Promises to give - Unconditional promises to give (pledges) expected to be collected within one year are reported at their estimated net realizable value. Pledges expected to be collected in future years are reported at the present value of estimated future cash flows based upon a risk adjusted five year T-bill rate (3% at June 30, 2018). The resulting discount is amortized and reported as contribution revenue. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. A pledge is written off when it reaches over 180 days past due or is determined to be uncollectible.

Cash equivalents - The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2018, cash equivalents consisted primarily of money market accounts.

(1) Summary of significant accounting policies (continued)

Collections - All collections of works of art and similar assets are capitalized. Items added to the collections are capitalized at cost, if purchased, or at estimated fair value at the date of acquisition, if donated. Collection items have cultural, aesthetic or historical value that is worth preserving perpetually, and the Foundation is protecting and preserving essentially undiminished the service potential of the collections items, therefore, they are not being depreciated. Contributions of art are temporarily restricted and may be disposed of with the proceeds received being restricted as to use.

Depreciation – Depreciation is computed by the straight line method over the following estimated useful lives:

Assets	Useful Lives
Buildings, equipment, furniture and software	3 – 39 years

Buildings, equipment, furniture and software – Buildings, equipment, furniture and software are carried at cost, if purchased or the approximate fair value at the date of donation, if donated. The Foundation capitalizes all expenditures for buildings, equipment and software in excess of $5,000.

Expense allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Investments and investment return - The Organization carries investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Investment income and gains/losses are included in unrestricted net assets, unless the income or gain/loss is restricted by donor stipulation or law. Investment income and gains/losses restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

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.

The Organization's management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable.

The Organization uses the equity method in accounting for its investment in a closely held corporation since it controls between 20%-50%.

Reclassifications – Certain reclassifications have been made to the summarized financial information presented as of and for the year ending June 30, 2017 to conform to the June 30, 2018 presentation.

(1) Summary of significant accounting policies (continued)

Recent Accounting Pronouncements – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, representing the first time since the mid-1990s that financial reporting for not-for-profit organizations has been addressed. Key elements of the ASU include: 1) Reducing net asset classifications from three categories to two reporting net assets with donor restrictions and net assets without donor restrictions, 2) Expanding disclosures about the nature and amount of any donor restrictions, 3) Expanding disclosures on any board designations of net assets without donor restrictions and 4) Classifying underwater donor-restricted endowments as net assets with donor restrictions. There will be enhanced required disclosures for underwater endowments, including disclosure of policies for reducing or ceasing spending from such endowments, the aggregate fair value, the aggregate original gift amount or level required to be maintained by donor or law, and the aggregate amount of any deficiencies. The placed-in-service approach will be required for determining when restrictions are met for all capital gifts, eliminating the over-time option for expirations of capital restrictions. Additional disclosures, both qualitative and quantitative, will be required to communicate information useful in assessing liquidity within one year of the balance sheet date. Enhanced disclosures will be required for organizations that present an operating measure. The indirect or direct method of presenting the statement of cash flows will be allowed; however, the reconciliation of operating items no longer will be required when using the direct method. When an organization derives net investment return from several different sources, such as donor endowments and unrestricted operating endowments, it may present the net investment return in multiple line items in the statement of activities. Higher education institutions will no longer be required to present “other investment portfolio” investment returns separately from other components of investment return. The components of net investment expense will no longer be required to be disclosed; however, organizations may continue to include this information when their financial statement users have an interest in that information. Several new reporting requirements related to expenses are as follows: 1) Disclosure of expenses by both nature and function (excluding investment expenses that have been netted with investment return), 2) Disclosure of expenses netted with investment return and 3) Enhanced disclosures regarding cost allocations.

ASU 2016-14 eliminates the requirement to disclose the unrealized gains and losses for the period related to equity securities held at the report date as previously required by ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance is effective for fiscal years beginning after December 15, 2017; however, early adoption is permitted. The Foundation is currently evaluating the impact of the adoption of ASU 2016-14 on its financial statements.

The FASB has issued other new accounting guidance or modifications to, or interpretations of, existing accounting guidance. The Foundation has considered the new un-adopted guidance and does not believe that any other new or modified guidance will have a material impact on the Foundation’s reported financial position or activities in the near term.

(2) **Investment return**

Investment returns for the year ended June 30, 2018 is comprised of the following:

Interest and dividend income	$ 3,525,084
Realized gains	2,996,842
Unrealized gains	8,720,835
	$ 15,242,761

(3) **Pledges receivable**

Pledges receivable consists of unconditional promises to give as summarized below at June 30, 2018:

Due in less than one year	$ 11,726,548
Due in one to five years	22,027,537
Due in more than five years	475,000
	34,229,085
Less:	
Allowance for uncollectible pledges	846,863
Unamortized discount (at effective rate of 3%)	1,465,288
	2,312,151
	$ 31,916,934

Permanently restricted pledges receivable total $4,773,992 at June 30, 2018 and are included in pledges receivable above.

(4) **Buildings, equipment, furniture and software**

Buildings, equipment, furniture and software are carried at cost, if purchased, or fair market value, if donated.

Buildings, equipment, furniture and software	$ 1,130,431
Less accumulated depreciation	(752,664)
Net buildings, equipment, furniture and software	$ 377,767

The Foundation's policy is to depreciate buildings, equipment and software over their remaining useful lives. The Foundation periodically evaluates the remaining useful life and recoverability of such buildings, software and equipment in light of current circumstances, and believes it will recover the carrying amount in future operations.

(5) **Annuities and trust payable**

The Foundation has entered into agreements with individuals whereby the individuals have deposited a sum of money with the Foundation. In exchange, the individuals are to receive, during the term of their life, an annuity or annual sum of money based on the provisions of each specific agreement. The difference between the original annuity amount invested and the discounted liability for future payments, determined on an actuarial basis, is recognized as contribution income at the date of gift. The actuarial liability is revalued annually and any surplus or deficiency is recognized as a change in value and is included in “Other income” on the statements of activities.

(6) **Collections**

Accessions and deaccessions for collections during the year ended June 30, 2018 are summarized as follows:

Collections, beginning of year	$ 15,834,823
Accessions	446,001
Deaccessions	(373,500)
Collections, end of year	$ 15,907,324

(7) **Other assets**

The Foundation entered into a memorandum of understanding during the year ended June 30, 2017 with Wichita State University Intercollegiate Athletic Association, Inc. (ICAA) in which The Foundation advanced $2.5 million to ICAA which is to be repaid to The Foundation no later than when construction commences on the Student Athlete Success Center (targeted for fiscal year ending June 30, 2019). This amount has been included within “other assets” on the statements of financial position.

(8) **Retirement plan**

The Foundation has a defined contribution retirement plan covering substantially all salaried employees. The Foundation’s contributions to the plan are 8.5% of total compensation paid to participants during the plan year. Participants are immediately fully vested in their plan interests. Contributions to the plan for the year ended June 30, 2018 totaled $209,900.

(9) Net assets

Temporarily restricted net assets are available for the following purposes at June 30, 2018:

Scholarships	$ 18,106,802
Educational support	16,594,081
Athletics	404,556
Buildings and grounds	40,060,400
Museum support	20,766,755
Library support	495,964
Other	22,467,790
	$ 118,896,348

Permanently restricted net assets are held in perpetuity. Summarized below is the amount of permanently restricted net assets and the related purpose for which investment revenue from these net assets can be expended, as of June 30, 2018:

Scholarships	$ 103,690,612
Educational support	55,495,914
Athletics	170,009
Buildings and grounds	1,900,623
Museum support	4,057,348
Library support	2,336,419
Other	24,209,579
	$ 191,860,504

(10) Endowment funds

The Organization's endowment consists of several individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (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. As a result of this interpretation, the Organization 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.

(10) Endowment funds (continued)

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 Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4.25%, while growing the funds if possible. Therefore, the Organization expects its endowment assets, to achieve a total return, net of fees, equal to or greater than spending, administrative fees and inflation. The primary objective for the portfolio is for total return to be greater than the Consumer Price Index plus spending policy plus administrative fees. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Foundation has a policy of appropriating for distribution each year a payout based on the following criteria:

All Endowed Funds:

- If corpus value drops down to 75%, the board will review and decide whether to continue payouts and at what rate.
- A payout of 4% calculated on a twenty quarter rolling market value average.

In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, most of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation.

(10) Endowment funds (continued)

Endowment net asset composition by type of fund as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 38,436,070	$ 187,086,514	$ 225,522,584
Board-designated endowment funds	861,001	-	-	861,001
Total funds	$ 861,001	$ 38,436,070	$ 187,086,514	$ 226,383,585

Changes in endowment net assets as of June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 845,983	$ 34,486,381	$ 176,759,676	$ 212,092,040
Investment return:				
Interest and dividend income	8,541	2,263,861	-	2,272,402
Realized and unrealized gains	52,246	12,365,277	-	12,417,523
Total investment return	60,787	14,629,138	-	14,689,925
Contributions	-	170,806	10,326,838	10,497,644
Appropriation of endowment assets for expenditure	(45,769)	(10,850,255)	-	(10,896,024)
Endowment net assets, end of year	$ 861,001	$ 38,436,070	$ 187,086,514	$ 226,383,585

The Foundation's permanently restricted net assets include various endowment funds established by donors. Fair value of the assets of some of these funds was approximately $1,501,475 less than the level required by donor stipulation or law at June 30, 2018.

(11) Concentrations

Two donors along with organizations affiliated with the donors accounted for 49% of undiscounted pledges receivable at June 30, 2018.

A significant amount of contributions are provided by a few major contributors. It is always reasonably possible that benefactors, grantors, or contributors might be lost in the near term.

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

(12) Investments

The Organization reports required types of financial instruments in accordance with fair value accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. In addition, the Foundation reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value measurement standards also require the Organization to classify financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for Level 2 or Level 3 reporting depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on an exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. During prior periods, the beneficial interests in trusts within the investment schedule below was presented at the lowest level of information available which included the detailed listing of investments managed by the trustees. Upon revaluation of the significant inputs, the investment labeled beneficial interests in trusts below were aggregated into one line and are presented as level 3 within the fair value hierarchy.

Market price is affected by a number of factors, including the type of instrument and characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices, or for which fair value can be measured from actively quoted prices, generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

(12) Investments (continued)

It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the Organization's financial statements.

The classification of investments by level within the valuation hierarchy as of June 30, 2018 is as follows:

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common & preferred stocks	$ 45,193,853	$ 45,193,853	$ -	$ -
Foreign stocks	34,014,725	34,014,725	-	-
Corporate bonds	36,809,902	-	36,809,902	-
Mortgage-backed securities	11,270,004	-	11,270,004	-
U.S. Government securities	19,911,973	19,911,973	-	-
Foreign bonds	99,452	-	99,452	-
Savings bonds	53,253	-	53,253	-
Zero coupon bonds	480,318	-	480,318	-
Beneficial interests in trusts	15,313,381	-	-	15,313,381
	$ 163,146,861	$ 99,120,551	$ 48,712,929	$ 15,313,381
Investments at NAV (Practical Expedient)				
Hedge funds	76,495,910			
Venture Capital / Private equity	19,418,800			
Total Investments	$ 259,061,571			

Activity for investments categorized as level 3 within the fair value hierarchy for the year ended June 30, 2018 is as follows:

Balance July 1, 2017	$ 14,963,670
Change in fair value	1,020,566
Distributions	(670,855)
Balance June 30, 2018	$ 15,313,381

The fair value of stocks and U.S. Government securities is estimated using the reported price in the active market in which the individual securities are traded (level 1).

The fair value of bonds is based on yields currently available on comparable securities of issuers with similar credit ratings (level 2).

Fair value of mortgage-backed securities is based on an inferred market pricing which utilizes assets that are matrix priced based on observable data for similar securities such as collateralized mortgage obligations (level 2).

The fair value of beneficial interests in trusts is estimated as The Foundation's proportionate share of the estimated fair value of the beneficial interest using quoted market prices, interest rates, yield curves and unobservable inputs including the present value calculation of expected future distributions (level 3).

(12) Investments (continued)

Fair value of hedge funds and venture capital/private equity is determined through consideration of the net asset values provided by the fund manager and other market factors. Other factors include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment.

A summary of investments utilizing the net asset value practical expedient and their attributes are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Northgate III (a)	$ 1,290,578	$ 50,400	n/a	n/a
Northgate IV (b)	2,802,919	195,000	n/a	n/a
Sigular Guff (c)	527,439	90,000	n/a	n/a
Varde Fund (d)	757,054	-	n/a	n/a
Venture Investment Assoc. I (e)	651,510	120,000	n/a	n/a
Venture Investment Assoc. II (e)	1,407,028	340,000	n/a	n/a
Venture Investment Assoc. III (e)	2,098,215	1,820,000	n/a	n/a
WCP Real Estate Fund III GP, LLC (f)	1,708,816	-	n/a	n/a
Archstone Offshore Fund, Ltd. (g)	197,370	-	n/a	n/a
AQR Global Risk & Style Premia Offshore (h)	6,370,300	-	n/a	n/a
HBK Offshore, Ltd. (i)	8,301,514	-	n/a	n/a
OZ Overseas Fund II (i)	1,065,261	-	n/a	n/a
GSO Special Situations Cusip 86619460 (j)	33,651	-	n/a	n/a
Palo Alto Healthcare Offshore II, Ltd. (k)	2,606,856	-	n/a	n/a
Graham Global Investment Fund II, Ltd. (l)	3,248,203	-	n/a	n/a
Falcon Strategic Partners IV, L.P. (m)	2,829,197	-	n/a	n/a
Falcon Strategic Partners V, L.P. (m)	1,910,754	1,668,607	n/a	n/a
MKP Opportunity Offshore, LTD (n)	3,462,533	-	n/a	n/a
Claren Road Credit Fund (o)	4,791	-	n/a	n/a
Rimrock High Income Plus (p)	4,422,247	-	n/a	n/a
FEG Priv. Opp. Fund II - Series B (q)	7,473,768	3,400,000	n/a	n/a
FEG Priv. Opp. Fund II - Series C (q)	9,567,596	850,000	n/a	n/a
FEG Priv. Opp. Fund III (q)	5,329,940	10,350,000	n/a	n/a
Harvest - MLP (r)	8,482,461	-	n/a	n/a
NGP Natural Resources (s)	1,956,408	246,881	n/a	n/a
Governors Lane Offshore (t)	2,892,719	-	n/a	n/a
Indaba Capital Partners (u)	3,124,463	-	n/a	n/a
Indus Capital Partners (v)	1,927,221	-	n/a	n/a
Atalan Offshore, Ltd. (w)	4,208,061	-	n/a	n/a
Elliott International, Ltd. (x)	1,018,100	-	n/a	n/a
Pelham Long/Short Fund, Ltd. (y)	4,237,737	-	n/a	n/a
Total	$ 95,914,710	$ 19,130,888		

(12) Investments (continued)

a) Venture capital fund made up of approximately 28 partners with an emphasis on various types of opportunities. Capital of $1,451,078 has been distributed since our investment, and otherwise we expect liquidation to occur after 8 to 10 years from initial investment when a purchaser is found for the various partnerships.

b) Investment made up of a combination of venture capital and private equity. There are approximately 17 partners. Capital of $2,373,262 has been distributed since our investment and liquidation will occur in 8 to 10 years from initial commitment.

c) Private equity fund that specializes in distressed opportunities companies. Capital of $4,054,801 has been distributed but it will take 8 to 10 years from initial investment for all capital to be distributed.

d) Fund that invests in distressed opportunities with 20% in mortgage backed securities. The investments are both in public (60%) and private (40%) companies. We expect liquidation to occur in about 10 years from initial investment. Capital of $2,959,996 has been distributed.

e) Private equity fund specializing in natural resources with an emphasis in energy. Capital of $1,691,050 has been distributed and the investments will liquidate in 8 to 10 years from initial investment.

f) WCP is a private equity fund with a focus on distressed and opportunistic investments in real estate. There has already been a capital distribution of $1,462,871 and the investment will liquidate in 8 to 10 years from the investments.

g) Archstone Partners is hedge fund of funds with investments in directional and non-directional equities. There are eleven directional managers, 60% of the portfolio and six absolute return managers for the other 40% of the portfolio. We are no longer in the one year lock-up period for the investment and withdrawals can be made annually with a 90 day notice. The fund makes up 0.26% of the hedge funds.

h) AQR is a risk parity manager designed to reduce risk with exposure to equity, interest rate and inflation. This manager will not have the big upswings in earnings or downswings in losses and provides a steady return. There is no lock-up period and withdrawals can be requested on a Tuesday and should be redeemed within five business days. The fund makes up 8.3% of the hedge funds.

i) These two hedge funds use a multi strategy in an attempt to diversify risks and reduce volatility. Investments could be made in securities, financial assets or other strategies. All lock up periods have expired for HBK and OZ. Otherwise withdrawals can be made quarterly with 65 days (HBK) notice or 30 days notice (OZ). These two funds make up 12.2% of hedge funds investments.

(12) **Investments (continued)**

j) This hedge fund is a multi-strategy fund that invests in a broad array of securities, other assets and opportunities within the corporate credit market. They seek to minimize downside risk and protect principal by maintaining a diversified portfolio. The investment has been liquidated and this balance will be paid once the wind down of the fund is completed for 12/31/15. Voluntary redemptions were suspended by the fund on April 1, 2017.

k) Palo Alto is a long short hedge fund that specializes in Healthcare companies. Redemptions maybe be made with a 30 day notice on March 31 or September 30 limited to 50% of shares. We are past the 24 month lockout period.

l) This hedge fund is a global macro fund and part of our diversifying strategies allocation. There is no lock up period and withdrawals can be made monthly with prior notification of three business days.

m) Falcon's focus is on privately placed mezzanine investments consisting primarily of subordinated debt. Distributions of $1,593,223 have be made from the fund and the fund should liquidate in 10 to 12 years after the initial investment.

n) This hedge fund is a discretionary global macro manager with a focus on fixed income and interest rates. MKP does not have a lockup period and redemptions can be monthly with a 60 day notice.

o) Claren is a long/short credit manager hedge fund with fundamental evaluations of internally generated credit analysis. There is a one year lockup period and then quarterly redemptions with a 45 day notice.

p) Rimrock High Income Plus is a fixed income hedge manager. We are past the one year lock up period and quarterly redemptions can be made with a 45 day notice.

q) We have committed to invest $10 million in FEG Private Opportunities Fund II; contributed $1.5M this year. This is a private capital fund of funds with lower cost and less administration for separate private capital managers. The investments will include Global private equity, real assets and special situations.

r) Harvest MLP is an investment firm focused on managing portfolios of publicly-traded midstream energy securities (master limited partnership). Redemptions can be made monthly.

s) We committed $2 million to the NGP Natural Resource LP. The fund should liquidate in about 6 years from the initial investment.

t) Governors Lane is a diversifying strategy hedge fund. There is a one year lockup period and then quarterly redemptions with a 45 day notice.

u) Indaba is an Asian-focused diversifying strategy hedge fund. There is a one year lockup period and then quarterly redemptions with a 90 day notice.

(12) Investments (continued)

v) Indus Lane is an Asia-focused diversifying strategy hedge fund. There is a one year lockup period and then quarterly redemptions with a 30 day notice.

w) Atalan Offshore Fund LTD is a US focused hedge fund with investments in equities. There is a no lockup period and then quarterly redemptions with a 60 day notice.

x) Elliott International is a diversifying strategy hedge fund. There is a two year lockup period and then quarterly redemptions with a 60 day notice.

y) Pellham is a European-focused hedge fund with investments in equities. There is a one year lockup period and then monthly redemptions with a 90 day notice.

(13) Investment at equity

The Organization uses the equity method to account for its financial interest in the following company:

Maize Avenue, Inc.

Balance July 1, 2017	$ 3,145,000
Equity in earnings of subsidiary	24,589
Distributions received	(238,800)
Balance June 30, 2018	$ 2,930,789

The Organization owns 49.75% of the shares of Maize Avenue, Inc. Summarized unaudited financial information obtained from Maize Avenue, Inc., which is accounted for under the equity method, as of June 30, 2018, consists of the following:

Total assets	$ 4,238,934
Total liabilities	154,722
Total equity	4,084,212
Income	$ 1,075,926
Expenses before depreciation	670,044
Net income before depreciation	405,882
Depreciation expense	162,642
Net income	$ 243,240

(14) Fair value of financial instruments

Fair values of financial instruments for which the Organization did not elect the fair value option includes cash and cash equivalents, mortgage receivable, accounts payable and accrued expenses. The fair value of such instruments was determined to approximate carrying value given the short term nature of these instruments using level 2 fair value methods. Net realizable values could be materially different from estimates at June 30, 2018. In addition these estimates are only indicative of the value of the individual financial instruments and should not be considered an indication of the fair value of the Organization.

The fair value of the Organization's pledges receivable is estimated by discounting the future cash flows using the risk adjusted rates currently offered for deposits of similar remaining maturities which is a level 2 fair value method.

The fair value of the Organization's cash surrender value of life insurance is based on the Organization's share of the cash surrender value of each life insurance policy as represented by the respective life insurance company which is a level 2 fair value method.

The fair value of annuities payable is estimated by discounting the future cash flows using the risk adjusted rates at which similar agreements would be written for the same remaining maturities which is a level 2 fair value method.

(15) Agency transactions

The liability accounts "Due to WSU Alumni Association, WSU Board of Trustees, WSU Departments and WSU Intercollegiate Athletic Association, Inc." represent the fair market value of the net cumulative transfers of these entities to the Organization, as well as earnings thereon.

(16) Subsequent events

An evaluation of subsequent events was completed by management through September 28, 2018, which represents the date 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.