
HAGAN TRUST
FINANCIAL STATEMENTS
DECEMBER 31, 2017

HAGAN TRUST

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INDEPENDENT AUDITORS' REPORT

To the Trustee
Hagan Trust

We have audited the accompanying financial statements of **Hagan Trust** (the Trust), which comprise the statement of net assets as of December 31, 2017, and the related statements of changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Hagan Trust** as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Kiefer Bonfanti & Co. LLP

St. Louis, Missouri
May 17, 2018

HAGAN TRUST

STATEMENT OF NET ASSETS
DECEMBER 31, 2017

Assets

Cash and cash equivalents	\$ 4,278,807
Investments - common stocks, at fair value	10,633,196
Total Assets	\$ 14,912,003

Liabilities

Excise taxes payable	\$ 7,186
Deferred federal excise taxes	39,500
Total Liabilities	46,686
Net Assets	
Unrestricted net assets	14,865,317
Total Liabilities and Net Assets	\$ 14,912,003

HAGAN TRUST

**STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2017**

Unrestricted Support, Revenue & Gains	
Realized and change in unrealized gain on investments	\$ 1,260,257
Dividend and interest income	324,832
Total Unrestricted Support, Revenue & Gains	1,585,089
Expenses	
Grant awards	609,125
Taxes	64,037
Office expense	32,817
Total Expenses	705,979
Increase in Unrestricted Net Assets	879,110
Net Assets, Beginning of Year	13,986,207
Net Assets, End of Year	\$ 14,865,317

HAGAN TRUST

**STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017**

Cash Flows from Operating Activities	
Increase in net assets	\$ 879,110
Adjustments:	
Decrease in unrealized gain on investments	697,738
Increase (decrease) in liabilities	
Excise taxes payable	(24,448)
Deferred federal excise taxes	6,448
Net Cash Provided by Operating Activities	1,558,848
Cash Flows from Investing Activities	
Net change in investments	638,609
Net Cash Used by Investing Activities	638,609
Net Increase in Cash and Cash Equivalents	2,197,457
Cash and Cash Equivalents, Beginning of Year	2,081,350
Cash and Cash Equivalents, End of Year	\$ 4,278,807
Supplemental Disclosure of Cash Flow Information	
Cash Paid for Taxes	\$ 82,037

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

Hagan Trust (the Trust) was created in Missouri in 2008 as a private foundation and the income and principal thereof shall be used exclusively for "Charitable Purposes" as described in Section 501(c)(3) of the Internal Revenue Code.

Donated assets of the Trust are invested in accordance with requirements of the trust agreement, with earnings derived from such assets used for distributions to other 501(c)(3) organizations, awards, reinvestment, and operating purposes.

The Trust also manages non-charitable use assets of other exempt organizations established by the Grantor of the Hagan Trust.

Financial Statement Presentation

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

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

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

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

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

There were no net assets subject to donor-imposed specific stipulations at December 31, 2017.

HAGAN TRUST

Notes to Financial Statements (Continued)

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

Cash and Cash Equivalents

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

Contributions

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

Investments

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

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

The Trust invests only in common stock of publicly traded companies.

Income Tax Status

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

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

Distribution Policy

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

After the Grantor's death or incompetency, all distributions shall be to other exempt organizations established by the Grantor during the Grantor's lifetime.

HAGAN TRUST

Notes to Financial Statements (Continued)

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

Use of Estimates

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

Risks and Uncertainties

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

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

2. INVESTMENTS

The following is a list of investments owned by the Trust at December 31, 2017:

	<u>Fair Value</u>
Allianz	\$ 1,773,761
AXA SA	1,373,767
Bank of NY Mellon	1,246,348
Bayerische Motr	803,748
IBM Corp	946,724
JP Morgan Chase & Co.	1,649,763
Lincoln National Corp	1,185,874
Swiss Re Ltd	722,423
Zimmer Biomet Hldgs	930,788
Total	<u>\$ 10,633,196</u>

HAGAN TRUST

Notes to Financial Statements (Continued)

2. INVESTMENTS (CONTINUED)

Investments managed by the Trust for other exempt organizations as of December 31, 2017 are:

Common stock, at fair value	\$ 127,218,566
Rental real estate	40,879,978
Cash	47,775,128
Total	\$ 215,873,672

3. FAIR VALUE MEASUREMENTS

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

The inputs or methodologies used for valuing investments may not be an indication of the risk associated with investing in those securities. Furthermore, the Trust believes its valuation methods are appropriate and consistent. The use of different methodologies or assumptions could result in a different fair value measurement at the reporting date. As of December 31, 2017, the fair values for all investments were determined based on Level 1 inputs.

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Notes to Financial Statements (Continued)

4. RELATED PARTIES

At no cost, the Trust receives administrative and occupancy services from the grantor who organized the Trust. The Trust provides investment management and custody services to the Hagan Scholarship Foundation and other exempt organizations established by the grantor.

5. TAXES

The Internal Revenue Code requires the Trust to distribute within 12 months of the end of each year approximately 5% of the average fair value of its assets not used in carrying out the charitable purpose of the Trust.

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

The provision for federal excise tax consists of a current provision on realized investment income and a deferred provision on net unrealized appreciation of investments.

Tax expense for year ended December 31, 2017:

Current

Federal excise taxes	\$ 7,186
Foreign income taxes	50,403
Total current tax provision	57,589

Deferred

Federal excise taxes	6,448
Total Tax Expense	\$ 64,037

Deferred federal excise taxes on unrealized appreciation at December 31, 2017	\$ 39,500
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Financial accounting standards for uncertain tax positions prohibit financial statement recognition of the impact of a tax position if the position is not "more likely than not" to be sustained on audit, based on the technical merits of the position. The Trust's Forms 990-PF are subject to examination by taxing authorities, generally for three years after they have been filed.

HAGAN TRUST

Notes to Financial Statements (Continued)

6. SUBSEQUENT EVENTS

Management evaluated subsequent events through May 17, 2018, the date which the financial statements were available to be issued, for possible recognition or disclosure. There were no subsequent events that required recognition or disclosure in the financial statements.