

# **Emporia State University Foundation, Inc.**

Auditor's Report and Financial Statements

June 30, 2013 and 2012



**Emporia State University Foundation, Inc.**  
**June 30, 2013 and 2012**

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## Independent Auditor's Report

Board of Trustees  
Emporia State University Foundation, Inc.  
Emporia, Kansas

We have audited the accompanying financial statements of Emporia State University Foundation, Inc., which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditor's 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.

Board of Trustees  
Emporia State University Foundation, Inc.  
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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Emporia State University Foundation, Inc. as of June 30, 2013 and 2012 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matter***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The condensed financial statements and selected ratios included in the Report to the Audit Committee and Board of Directors are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**BKD, LLP**

Kansas City, Missouri  
December 6, 2013



# Emporia State University Foundation, Inc.

## Statement of Activities Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains and Other Support</b>				
Contributions	\$ 533,307	\$ 3,818,970	\$ 1,263,188	\$ 5,615,465
Interest and dividends	90,450	1,064,367	20,882	1,175,699
Net realized gains	142,482	2,481,382	16,403	2,640,267
Net unrealized gains (losses)	(82,397)	2,496,360	91,852	2,505,815
Limited partnership investment return	41,354	708,460	-	749,814
Change in beneficial interests in trusts	(13,233)	30,858	235,643	253,268
Loss on annuity and trust obligations	(10,518)	(3,850)	(84,932)	(99,300)
Other	25,759	36,315	-	62,074
Change in donor intent	5,620	77,670	(83,290)	-
Net assets released from restrictions	5,673,385	(5,673,385)	-	-
Total revenues, gains and other support	<u>6,406,209</u>	<u>5,037,147</u>	<u>1,459,746</u>	<u>12,903,102</u>
<b>Expenses and losses</b>				
Program	3,990,736	-	-	3,990,736
Management and general	1,341,302	-	-	1,341,302
Fundraising	1,073,694	123,909	92,557	1,290,160
Total expenses and losses	<u>6,405,732</u>	<u>123,909</u>	<u>92,557</u>	<u>6,622,198</u>
<b>Change in Net Assets</b>	477	4,913,238	1,367,189	6,280,904
<b>Net Assets, Beginning of Year</b>	<u>4,100,918</u>	<u>21,796,853</u>	<u>51,526,515</u>	<u>77,424,286</u>
<b>Net Assets, End of Year</b>	<u>\$ 4,101,395</u>	<u>\$ 26,710,091</u>	<u>\$ 52,893,704</u>	<u>\$ 83,705,190</u>

**Emporia State University Foundation, Inc.**  
**Statement of Activities**  
**Year Ended June 30, 2012**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>				
Contributions	\$ 588,955	\$ 2,144,720	\$ 941,395	\$ 3,675,070
Interest and dividends	119,884	1,083,607	42,943	1,246,434
Net realized gains	111,400	962,991	15,346	1,089,737
Net unrealized losses	(400,006)	(2,264,576)	(29,864)	(2,694,446)
Limited partnership investment return	40,896	395,336	-	436,232
Change in beneficial interests in trusts	-	(10,493)	375,431	364,938
Gain (loss) on annuity and trust obligations	5,246	(20,515)	(91,982)	(107,251)
Other	25,152	143,279	95,255	263,686
Change in donor intent	(118,284)	50,377	67,907	-
Net assets released from restrictions	4,302,933	(4,302,933)	-	-
<b>Total revenues, gains and other support</b>	<b>4,676,176</b>	<b>(1,818,207)</b>	<b>1,416,431</b>	<b>4,274,400</b>
<b>Expenses and losses</b>				
Program	3,134,206	-	-	3,134,206
Management and general	1,199,219	-	-	1,199,219
Fundraising	837,972	-	-	837,972
<b>Total expenses and losses</b>	<b>5,171,397</b>	<b>-</b>	<b>-</b>	<b>5,171,397</b>
<b>Change in Net Assets</b>	<b>(495,221)</b>	<b>(1,818,207)</b>	<b>1,416,431</b>	<b>(896,997)</b>
<b>Net Assets, Beginning of Year</b>	<b>4,596,139</b>	<b>23,615,060</b>	<b>50,110,084</b>	<b>78,321,283</b>
<b>Net Assets, End of Year</b>	<b>\$ 4,100,918</b>	<b>\$ 21,796,853</b>	<b>\$ 51,526,515</b>	<b>\$ 77,424,286</b>

**Emporia State University Foundation, Inc.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Operating Activities</b>		
Change in net assets	\$ 6,280,904	\$ (896,997)
Items not requiring (providing) operating activities cash flows		
Depreciation	73,954	74,825
Net realized and unrealized (gains) losses on investments	(5,895,896)	1,934,169
Loss on annuity and trust obligations	99,300	107,251
Change in beneficial interests in trusts	(253,268)	(364,938)
Contributions and investment income received restricted for long-term investment	(1,284,070)	(1,065,075)
Changes in		
Accounts receivable	6,504	7,404
Contributions receivable	(1,457,772)	99,058
Beneficial interests in trusts	157,880	(788,406)
Other assets	(8,141)	(59,625)
Accounts payable and accrued expenses	1,574	-
Annuity and trust obligations	-	(42,209)
	<u>(2,279,031)</u>	<u>(994,543)</u>
Net cash used in operating activities		
	<u>(2,279,031)</u>	<u>(994,543)</u>
<b>Investing Activities</b>		
Principal payments received on mortgages receivable	33,722	37,600
Purchase of investments	(27,890,045)	(16,481,462)
Proceeds from the disposition of investments	29,217,904	16,367,088
Purchase of property and equipment	(40,316)	(85,119)
	<u>1,321,265</u>	<u>(161,893)</u>
Net cash provided by (used in) investing activities		
	<u>1,321,265</u>	<u>(161,893)</u>
<b>Financing Activities</b>		
Proceeds from contributions and investment income restricted for long-term investment	1,180,196	1,065,075
Payments on annuity and trust obligations	(128,159)	(132,149)
Proceeds from issuance of notes payable	-	286,000
Principal payments on notes payable	(91,571)	(7,241)
	<u>960,466</u>	<u>1,211,685</u>
Net cash provided by financing activities		
	<u>960,466</u>	<u>1,211,685</u>
<b>Increase in Cash and Cash Equivalents</b>	2,700	55,249
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>235,774</u>	<u>180,525</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 238,474</u>	<u>\$ 235,774</u>



# Emporia State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2013 and 2012

### Note 1: Nature of Operations and Summary of Significant Accounting Policies

#### *Nature of Operations*

Emporia State University Foundation, Inc. (Foundation) provides scholarships to students and various other types of support to Emporia State University (ESU) and its Alumni. The Foundation is supported primarily through donor contributions. The Foundation is a separately administered organization that is a component unit of Emporia State University and the State of Kansas. The Foundation's financial statements are included in summary form in the State of Kansas' comprehensive annual financial report.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

#### *Cash and Cash Equivalents*

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, cash equivalents consisted primarily of a daily repurchase agreement which is not subject to FDIC insurance limits. At June 30, 2013, the Foundation's cash accounts did not exceed federally insured limits.

#### *Investments and Investment Return*

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Alternative investments are valued using the most recent valuation available by the respective external fund manager. The fair value of certain alternative investments, such as the private equity and natural resources limited partnerships, are estimated based on the most recent valuations provided by external investment managers, adjusted for cash receipts and disbursements through June 30. The Foundation compares this carrying value to the June 30 investment statements provided by the external investment managers and believes the carrying value of these financial instruments is a reasonable estimate of fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statement of activities as unrestricted, temporarily or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

# Emporia State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2013 and 2012

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

### ***Mortgages Receivable***

Mortgages receivable are stated at the amounts loaned to other organizations plus any accrued and unpaid interest. If necessary, the Foundation will record an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances.

### ***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	10 - 40 years
Furniture and equipment	3 - 10 years

### ***Long-lived Asset Impairment***

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2013 and 2012.

### ***Unrestricted, Temporarily and Permanently Restricted Net Assets***

Unrestricted net assets include undesignated and Board-designated resources. The Board-designated net asset accounts represent funds identified by the Board of Directors for future use. Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

# **Emporia State University Foundation, Inc.**

## **Notes to Financial Statements**

**June 30, 2013 and 2012**

### ***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations that are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

### ***In-kind Contributions***

In addition to receiving cash contributions, the Foundation receives in-kind contributions of stock gifts, auction items and equipment for athletics from various donors. It is the policy of the Foundation to record the estimated fair value of certain in-kind donations as an expense or asset in its financial statements, and similarly increase contribution revenue by a like amount.

### ***Income Taxes***

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2010.

### ***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program, management and general and fundraising categories based on time expended, usage and other methods.

### ***Transfers Between Fair Value Hierarchy Levels***

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

**Emporia State University Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

***Reclassifications***

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net assets.

***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

**Note 2: Investments and Investment Return**

***Investments***

Investments at June 30, 2013 and 2012 consisted of the following:

	<b>2013</b>	<b>2012</b>
Money markets accounts	\$ 544,509	\$ 301,663
Certificates of deposit	443,882	459,162
Cash surrender value of life insurance	975,439	929,442
Fixed income mutual funds		
Intermediate-term bond	9,146,633	7,649,755
Other fixed income mutual funds	2,293,086	5,025,257
Equity mutual funds		
Large growth	8,296,578	7,001,940
Foreign large blend	12,101,541	10,857,425
Other equity mutual funds	10,140,696	7,056,537
Exchange traded funds	2,503,268	2,287,644
U.S. Savings bonds	70,903	-
Common trust equity funds	2,465,623	4,489,182
Common trust fixed income funds	2,203,377	2,202,622
Hedge funds and fixed income partnerships	10,197,791	10,321,159
Real estate and real estate partnerships	2,960,185	2,823,233
Private equity and natural resources limited partnerships	8,639,069	7,009,522
	<u>\$ 72,982,580</u>	<u>\$ 68,414,543</u>

**Emporia State University Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

**Investment Return**

Total investment return is comprised of the following:

	<b>2013</b>	<b>2012</b>
Interest and dividend income	\$ 1,175,699	\$ 1,246,434
Net realized gains	2,640,267	1,089,737
Net unrealized gains (losses)	2,505,815	(2,694,446)
Partnership distributions	749,814	436,232
	\$ 7,071,595	\$ 77,957

Investment return is net of investment fees which were \$117,934 and \$117,744 for the years ended June 30, 2013 and 2012, respectively.

**Alternative Investments**

Except as described below, the fair value of alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at June 30, 2013 and 2012 consist of the following:

	<b>Fair Value</b>		<b>Unfunded Commitments</b>		<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>		
Common trust funds (A)	\$ 4,669,000	\$ 6,691,804	N/A	N/A	Daily, monthly	1 - 10 days
Hedge funds and fixed income partnerships (B)	10,197,791	10,321,159	N/A	N/A	Quarterly	60 - 100 days
Real estate partnerships (C)	2,960,185	2,823,233	N/A	N/A	Quarterly	90 days
Private equity and natural resource partnerships (D)	8,639,069	7,009,522	\$7,689,054	\$7,294,600	At fund discretion	N/A

(A) Common trust funds permit the commingling or pooling of investors' money into one account (known as a common fund) for the purpose of creating a single investment. Because they are a bank product, common trust funds are not required to be registered with the Securities and Exchange Commission and they are not considered to be a security under state and federal securities laws. Much like mutual funds, common trust funds strike a net asset value on a periodic basis and have varying investment strategies that primarily include investments in traditional assets such as domestic and international equity, fixed income securities and other securities.

# Emporia State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2013 and 2012

The Foundation has invested with two common trust funds. One is a daily liquidity fund, while the other is a monthly liquidity fund.

- (B) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. Some examples of the strategies fund of hedge funds invest in include long/short equity, long/short credit, event driven, global macro and multi-strategy. There is also an investment in a fixed income specialist limited partnership, focusing on corporate bonds and senior bank loans. The Foundations' hedge funds have initial lock-up periods ranging from zero to one year, and thereafter require between 60 and 95 days of advance notice prior to quarterly or semi-annual redemption windows. One of the Foundation's hedge fund of fund investments (valued at approximately \$65,000) had a gate imposed by the manager, and redemptions are being restricted. The fund has been selling investments and returning the proceeds to the Foundation.
- (C) The Foundation's real estate investment consists of an open-end real estate product that invests across all major property types using public REITS, private open-end core real estate funds, and a portfolio of directly held properties. This investment provides investors with quarterly redemptions. Redemptions payments may be delayed in the event of extraordinary circumstances.
- (D) Private equity involves acquiring stakes in private companies. Natural resources include investments across a broad spectrum, including natural resources and energy related investments and commodities. The Foundation primarily utilizes fund of funds to access these investments since this provides diversification and reduces risk. These investments are considered to be long term endeavors and have limited liquidity. Investors make a dollar commitment identifying how much they will invest. During the "drawdown" period (typically the first several years) committed capital is called from investors. Capital is returned to investors as investments are divested through sales.

### Note 3: Contributions Receivable

Contributions receivable at June 30, 2013 and 2012 consisted of the following unconditional promises to give discounted at a rate of 3.25%:

	<u>2013</u>	<u>2012</u>
Due within one year	\$ 836,459	\$ 266,734
Due in one to five years	1,410,000	206,998
Due in more than five years	212,600	2,100
	<u>2,459,059</u>	<u>475,832</u>
Less		
Allowance for uncollectible contributions	235,922	14,275
Unamortized discount	229,258	29,324
	<u>\$ 1,993,879</u>	<u>\$ 432,233</u>

**Emporia State University Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

**Note 4: Mortgages Receivable**

Mortgages receivable at June 30, 2013 and 2012 consisted of the following:

	<b>2013</b>	<b>2012</b>
Due from University sorority; matures March 1, 2050. The note bears interest at 6.5% per annum and is due in monthly principal and interest payments; collateralized by real estate	\$ 669,825	\$ 674,196
Due from University sorority; matures August 1, 2035. The note bears interest at 6.0% per annum and is due in monthly principal and interest payments; collateralized by real estate	97,860	120,950
Due from University fraternity; matures June 1, 2050. The note bears interest at 6.0% per annum and is due in monthly principal and interest payments; collateralized by real estate	71,224	71,734
Due from University fraternity; matures March 1, 2028. The note bears interest at 8.25% per annum and is due in monthly principal and interest payments; collateralized by real estate	188,047	193,798
	\$ 1,026,956	\$ 1,060,678

At June 30, 2013 and 2012, there were no mortgages receivable with past due balances. Foundation management believes that all mortgages receivable are fully collectible and therefore has not recorded an allowance for doubtful accounts at June 30, 2013 and 2012.

**Note 5: Beneficial Interest in Trusts**

The Foundation is the beneficiary under various trusts administered by outside parties. Under the terms of the trusts, the Foundation has the irrevocable right to receive income earned on the trust assets in perpetuity or the rights to the trust assets after some future event. The estimated value of the expected future cash flows is \$7,306,798 and \$7,211,410, respectively, which represents the fair value of the trusts' assets at June 30, 2013 and 2012. The income from these trusts for 2013 and 2012 was \$644,859 and \$572,588, respectively.

**Emporia State University Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

**Note 6: Property and Equipment**

Property and equipment at June 30, 2013 and 2012 consisted of the following:

	<b>2013</b>	<b>2012</b>
Land	\$ 313,263	\$ 313,263
Buildings and improvements	2,538,844	2,538,844
Furniture and equipment	292,350	276,298
	3,144,457	3,128,405
Less accumulated depreciation	1,355,582	1,305,892
	\$ 1,788,875	\$ 1,822,513

**Note 7: Note Payable**

During 2012, the Foundation issued a promissory note to a bank that matures on May 1, 2015. At June 30, 2013 and 2012, the balance on this note was \$187,188 and \$278,759, respectively. Principal and interest payments of \$8,490 are due monthly and include interest at 4.25%. The note is secured by certain computer software. Annual maturities of the note payable are:

2014	\$ 95,694
2015	91,494
	\$ 187,188

**Note 8: Annuities and Trusts Payable**

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The Foundation has recorded a liability at June 30, 2013 and 2012 of \$465,189 and \$489,885, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates of 1.4% to 2.8%.

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. Assets held in the charitable remainder trusts are recorded at fair value of \$1,344,785 and \$1,338,889 as of June 30, 2013 and 2012, respectively, and included in the investments in the Foundation's statements of financial position. The Foundation has recorded a liability at June 30, 2013 and 2012 of \$1,014,277 and \$1,018,440, respectively, which represents the present value of the future obligations to make distributions to the designated beneficiaries. On an annual basis, the Foundation revalues the liability to make distributions to the designated benefi-



# Emporia State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2013 and 2012

ciaries based on actuarial assumptions. The present value of the estimated future payments is calculated using discount rates provided by the Internal Revenue Service and applicable mortality tables.

### Note 9: Net Assets

#### *Temporarily Restricted Net Assets*

Temporarily restricted net assets at June 30, 2013 and 2012 were available for the following purposes:

	<u>2013</u>	<u>2012</u>
Scholarships	\$ 15,617,644	\$ 12,470,908
Amounts available for the benefit of ESU departments and organizations	9,946,171	8,196,332
Greatest need	1,137,622	1,121,576
Outside entities	8,654	8,037
	<u>\$ 26,710,091</u>	<u>\$ 21,796,853</u>

#### *Permanently Restricted Net Assets*

Permanently restricted net assets at June 30, 2013 and 2012 are restricted for:

	<u>2013</u>	<u>2012</u>
Scholarships	\$ 38,992,463	\$ 37,781,714
Amounts available for the benefit of ESU departments and organizations	9,308,215	9,303,098
Greatest need	4,415,640	4,265,213
Donor advised funds	177,386	176,490
	<u>\$ 52,893,704</u>	<u>\$ 51,526,515</u>

# Emporia State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2013 and 2012

### **Net Assets Released from Restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2013</u>	<u>2012</u>
Scholarships	\$ 2,093,541	\$ 1,833,376
Amounts available for the benefit of ESU departments and organizations	1,789,758	1,198,990
Internal management fees	<u>1,790,086</u>	<u>1,270,567</u>
	<u>\$ 5,673,385</u>	<u>\$ 4,302,933</u>

### **Note 10: Endowment**

The Foundation's endowment consists of numerous individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the State of Kansas as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

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The composition of net assets by type of endowment fund at June 30, 2013 and 2012 was:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>June 30, 2013</b>				
Donor-restricted	\$ (8,621)	\$ 17,143,905	\$ 44,875,067	\$ 62,010,351
Board-designated	1,692,327	-	-	1,692,327
	<u>\$ 1,683,706</u>	<u>\$ 17,143,905</u>	<u>\$ 44,875,067</u>	<u>\$ 63,702,678</u>
<b>June 30, 2012</b>				
Donor-restricted	\$ (127,828)	\$ 14,063,756	\$ 44,090,702	\$ 58,026,630
Board-designated	1,600,143	-	-	1,600,143
	<u>\$ 1,472,315</u>	<u>\$ 14,063,756</u>	<u>\$ 44,090,702</u>	<u>\$ 59,626,773</u>

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Changes in endowment net assets for the years ended June 30, 2013 and 2012 were:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, July 1, 2011	\$ 1,662,270	\$ 16,937,344	\$ 42,709,667	\$ 61,309,281
Investment return				
Investment income	111,735	1,074,370	-	1,186,105
Net depreciation	(98,583)	(952,979)	-	(1,051,562)
Total investment return	13,152	121,391	-	134,543
Contributions	-	28,622	1,381,035	1,409,657
Appropriation of endowment assets for expenditures	(67,760)	(1,774,300)	-	(1,842,060)
Administration and management fees	(135,347)	(1,249,301)	-	(1,384,648)
Endowment net assets, June 30, 2012	1,472,315	14,063,756	44,090,702	59,626,773
Investment return				
Investment income	61,511	1,053,791	-	1,115,302
Net appreciation	330,247	5,657,694	-	5,987,941
Total investment return	391,758	6,711,485	-	7,103,243
Contributions	15,778	177,837	784,365	977,980
Appropriation of endowment assets for expenditures	(86,600)	(1,932,487)	-	(2,019,087)
Administration and management fees	(109,545)	(1,876,686)	-	(1,986,231)
Endowment net assets, June 30, 2013	\$ 1,683,706	\$ 17,143,905	\$ 44,875,067	\$ 63,702,678

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Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2013 and 2012 consisted of:

	<b>2013</b>	<b>2012</b>
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	<u>\$ 44,875,067</u>	<u>\$ 44,090,702</u>
Temporarily restricted net assets		
Term endowment funds	\$ 6,063,720	\$ 5,599,199
Portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	<u>11,080,185</u>	<u>8,464,557</u>
	<u>\$ 17,143,905</u>	<u>\$ 14,063,756</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$8,621 and \$127,828 at June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Foundation's policies, endowment assets are invested in a manner that is expected to produce long term investment returns of approximately 8.3% while assuming an 12.2% level of investment risk as measured by standard deviation. Actual returns and risk in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that limits its dependency on any one asset class to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year 3.5% of its endowment fund's market value on the valuation date factored by the prior 12 quarter rolling average market value. The valuation dates for the June 30, 2013 and 2012 appropriations were June 30, 2012 and 2011, respectively. Quarterly, the Foundation assesses an administration fee on its endowment fund's market value. The administration fee for 2013 and 2012 was 0.75% and 0.50%, respec-

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tively. In establishing these policies, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current policies to allow its endowment to grow at an average of 1.8% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment returns.

### Note 11: Related Party Transactions

The Foundation is a component unit of Emporia State University. The purpose of the Foundation is to aid, foster and promote the development and welfare of Emporia State University in Emporia, Kansas, and the education and welfare of its students, faculty and alumni, and to acquire property of all kinds for purposes stated above. The Foundation is dependent on the existence of Emporia State University. All personnel of the Foundation are considered employees of the State of Kansas. The personnel positions at the Foundation are either funded by the State or are the responsibility of the Foundation. The Foundation reimburses the University for the payroll and related costs of personnel positions not funded by the State. The Foundation purchases services, supplies and materials from the University, as well as from outside vendors.

During the years ended June 30, 2013 and 2012, the Foundation received funding from the University of \$20,818 and \$21,064, respectively, for personnel services. The Foundation made payments to the University for the years ended June 30, 2013 and 2012 of \$1,543,513 and \$1,300,833, respectively, which consisted of \$1,388,321 and \$1,175,992, respectively, for personnel services, and \$155,193 and \$124,841, respectively, for supplies and services.

### Note 12: Retirement Plans

Foundation employees participate in two separate programs as employees of the State of Kansas. Classified employees participate in the "Kansas Public Employees Retirement System" (KPERs). Benefit provisions are established by state statute and provide retirement, disability and death benefits to benefits eligible employees. KPERs issues a publicly available annual financial report that includes its financial statements and required supplementary information and is available upon request from KPERs.

Eligible unclassified employees are required to participate in the Kansas Board of Regents (Regents) defined contribution retirement plan, which was authorized by K.S.A. 74-4925. This defined contribution program is funded through contributions by the Foundation and individual employees. The Regents have selected several companies to provide investment options to participants. Benefits under these plans depend solely on the contributed amounts and the returns earned on the investment of those contributions. All contributions are fully vested with the first contribution.

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Employees may also elect to participate, up to the maximum dollar amount permitted by the Internal Revenue Code, in a voluntary tax-sheltered annuity program. The voluntary plan permits employees to designate a part of their earnings into tax-sheltered investments and thus defer federal and state income taxes on their contributions and the accumulated earnings under the plan. Participation and the level of employee contributions are voluntary. The employer is not required to make contributions to the plan.

### Note 13: Disclosures About Fair Value of Assets and Liabilities

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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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### Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2013 and 2012:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2013</b>				
Investments				
Money markets accounts	\$ 544,509	\$ 544,509	\$ -	\$ -
Fixed income mutual funds				
Intermediate-term bond	9,146,633	9,146,633	-	-
Other fixed income mutual funds	2,293,086	2,293,086	-	-
Equity mutual funds				
Large growth	8,296,578	8,296,578	-	-
Foreign large blend	12,101,541	12,101,541	-	-
Other equity mutual funds	10,140,696	10,140,696	-	-
Exchange traded funds	2,503,268	2,503,268	-	-
U.S. Savings bonds	70,903	-	70,903	-
Common trust equity funds	2,465,623	-	2,465,623	-
Common trust fixed income funds	2,203,377	-	2,203,377	-
Hedge funds and fixed income partnerships	10,197,791	-	10,197,791	-
Real estate and real estate partnerships	2,960,185	-	2,960,185	-
Private equity and natural resources limited partnerships	8,639,069	-	-	8,639,069
Beneficial interests in trusts	7,306,798	-	495,576	6,811,222
	<u>\$ 78,870,057</u>	<u>\$ 45,026,311</u>	<u>\$ 18,393,455</u>	<u>\$ 15,450,291</u>



# Emporia State University Foundation, Inc.

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	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2012</b>				
Investments				
Money markets accounts	\$ 301,663	\$ 301,663	\$ -	\$ -
Fixed income mutual funds				
Intermediate-term bond	7,649,755	7,649,755	-	-
Other fixed income mutual funds	5,025,257	5,025,257	-	-
Equity mutual funds				
Large growth	7,001,940	7,001,940	-	-
Foreign large blend	10,857,425	10,857,425	-	-
Other equity mutual funds	7,056,537	7,056,537	-	-
Exchange traded funds	2,287,644	2,287,644	-	-
Common trust equity funds	4,489,182	-	4,489,182	-
Common trust fixed income funds	2,202,622	-	2,202,622	-
Hedge funds and fixed income partnerships	10,321,159	-	10,321,159	-
Real estate and real estate partnerships	2,823,233	-	2,823,233	-
Private equity and natural resources limited partnerships	7,009,522	-	-	7,009,522
Beneficial interests in trusts	7,211,410	-	504,038	6,707,372
	<u>\$ 74,237,349</u>	<u>\$ 40,180,221</u>	<u>\$ 20,340,234</u>	<u>\$ 13,716,894</u>

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2013. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

### Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, de-

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faults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the Foundation expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which the Foundation does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

Fair value determinations for Level 3 measurements of securities are the responsibility of the Foundation's management. The Foundation obtains the most recent valuations available by the respective external fund manager and challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

***Beneficial Interest in Trusts***

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement, which is equivalent to the fair value of the trust assets. Beneficial interests are classified within Level 2 of the hierarchy if the fair values of the underlying investments are determined through quoted market prices or other observable inputs and the Foundation expects to have the ability to redeem the trust assets in the near term. Beneficial interests in which the Foundation will never have the ability to redeem are classified within Level 3 of the hierarchy.

# Emporia State University Foundation, Inc.

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### **Level 3 Reconciliation**

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs at June 30:

	<b>Private Equity and Natural Resources Limited Partnerships</b>	<b>Beneficial Interests in Trusts</b>
Balance, July 1, 2011	\$ 5,987,209	\$ 5,509,076
Unrealized appreciation (depreciation) on investments	(338,855)	375,649
Capital calls / purchases	1,362,722	822,647
Distributions	(1,554)	-
Balance, June 30, 2012	7,009,522	6,707,372
Unrealized appreciation (depreciation) on investments	(495,753)	228,850
Capital calls / purchases	2,221,086	-
Distributions	(95,786)	(125,000)
Balance, June 30, 2013	\$ 8,639,069	\$ 6,811,222
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date		
Year ended June 30, 2012	\$ (338,855)	\$ 375,649
Year ended June 30, 2013	\$ (495,753)	\$ 228,850

Realized and unrealized gains and losses for items reflected in the table above are included in investment return on the statements of activities.

# **Emporia State University Foundation, Inc.**

## **Notes to Financial Statements**

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### **Note 14: Significant Concentrations and Estimates**

Accounting principles generally accepted in the United States of America require disclosure of certain significant uncertainties and current vulnerabilities due to certain concentrations. Those matters include the following:

#### ***Contributions***

Approximately 11% of all contributions were received from one donor in 2013. There was not a concentration of donor contributions in 2012.

#### ***Investments***

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

#### ***Beneficial Interests in Trusts***

Estimates related to the valuation of beneficial interests in trusts are described in Note 5.

#### ***Annuities and Trusts Payable***

Estimates related to the valuation of annuities and trusts payable are described in Note 8.