Emporia State University Foundation, Inc.

Accountants' Report and Financial Statements

June 30, 2012 and 2011

BKD LLP
CPAs & Advisors

Emporia State University Foundation, Inc.
June 30, 2012 and 2011

Contents

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CPAs & Advisors

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Independent Accountants' Report

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

We have audited the accompanying statements of financial position of Emporia State University Foundation, Inc. as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Emporia State University Foundation, Inc. as of June 30, 2012 and 2011 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.

As discussed in Note 2, in 2011 the Foundation changed its method of accounting for net asset classifications and beneficial interests in trusts by retroactively restating beginning net assets.

BKD, LLP

Kansas City, Missouri
March 11, 2013

Emporia State University Foundation, Inc.

Statements of Financial Position

June 30, 2012 and 2011

Assets		2012		2011
				(Restated- Note 2)
Cash and cash equivalents	$	235,774	$	180,525
Accounts receivable		15,327		22,731
Mortgages receivable		1,060,678		1,098,278
Loan funds held at Emporia State University		73,762		75,892
Investments		68,414,543		70,234,338
Contributions receivable, net of allowance; 2012 - $14,275, 2011 - $17,487		432,233		531,291
Beneficial interests in trusts		7,211,410		6,058,066
Property and equipment, net of accumulated depreciation; 2012 - $1,305,892, 2011 - $1,234,621		1,822,513		1,812,219
Other assets		136,982		75,227
Total assets	$	79,403,222	$	80,088,567

Liabilities and Net Assets

		2012		2011
Liabilities				
Accounts payable	$	83,537	$	55,175
Accrued expenses		108,315		178,886
Note payable		278,759		-
Annuity and trust obligations		1,508,325		1,533,223
Total liabilities		1,978,936		1,767,284
Net Assets				
Unrestricted		4,100,918		4,596,139
Temporarily restricted		21,796,853		23,615,060
Permanently restricted		51,526,515		50,110,084
Total net assets		77,424,286		78,321,283
Total liabilities and net assets	$	79,403,222	$	80,088,567

Emporia State University Foundation, Inc.

Statement of Activities

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	$ 588,955	$ 2,144,720	$ 941,395	$ 3,675,070
Change in beneficial interests in trusts	-	(10,493)	375,431	364,938
Investment return	(127,826)	177,358	28,425	77,957
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)	-	-
Total revenues, gains and other support	4,676,176	(1,818,207)	1,416,431	4,274,400
Expenses and losses				
Program	3,134,206	-	-	3,134,206
Management and general	1,199,219	-	-	1,199,219
Fundraising	837,972	-	-	837,972
Total expenses and losses	5,171,397	-	-	5,171,397
Change in Net Assets	(495,221)	(1,818,207)	1,416,431	(896,997)
Net Assets, Beginning of Year	4,596,139	23,615,060	50,110,084	78,321,283
Net Assets, End of Year	$ 4,100,918	$ 21,796,853	$ 51,526,515	$ 77,424,286

Emporia State University Foundation, Inc.
Statement of Activities
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(Restated - See Note 2)		
Revenues, Gains and Other Support				
Contributions	$ 324,445	$ 1,247,502	$ 1,801,622	$ 3,373,569
Change in beneficial interests in trusts	-	34,039	1,212,815	1,246,854
Investment return	1,155,679	9,902,913	308,994	11,367,586
Gain (loss) on annuity and trust obligations	(48,690)	1,809	(66,126)	(113,007)
Other	190,694	130,829	36,956	358,479
Change in donor intent	-	13,746	(13,746)	-
Net assets released from restrictions	4,254,072	(4,254,072)	-	-
Total revenues, gains and other support	5,876,200	7,076,766	3,280,515	16,233,481
Expenses and losses				
Program	2,976,671	-	1,051	2,977,722
Management and general	1,139,759	-	-	1,139,759
Fundraising	709,894	-	-	709,894
Total expenses and losses	4,826,324	-	1,051	4,827,375
Change in Net Assets	1,049,876	7,076,766	3,279,464	11,406,106
Net Assets, Beginning of Year, as Previously Reported	3,163,599	12,280,775	51,672,668	67,117,042
Restatements (Note 2)	382,664	4,257,519	(4,842,048)	(201,865)
Net Assets, Beginning of Year, as Restated	3,546,263	16,538,294	46,830,620	66,915,177
Net Assets, End of Year	$ 4,596,139	$ 23,615,060	$ 50,110,084	$ 78,321,283

Emporia State University Foundation, Inc.

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	$ (896,997)	$ 11,406,106
Items not requiring (providing) operating activities cash flows		
Depreciation	74,825	78,568
Loss on disposal of equipment	-	14,581
Net realized and unrealized (gains) losses on investments	1,934,169	(9,264,476)
Loss on annuity and trust obligations	107,251	113,007
Change in beneficial interests in trusts	(364,938)	(1,246,854)
Contributions and investment income received restricted for long-term investment	(1,065,075)	(2,147,881)
Changes in		
Accounts receivable	7,404	(22,731)
Contributions receivable	99,058	181,826
Beneficial interests in trusts	(788,406)	(286,640)
Other assets	(59,625)	22,932
Accounts payable and accrued expenses	-	82,631
Annuity and trust obligations	(42,209)	(152,638)
Net cash used in operating activities	(994,543)	(1,221,569)
Investing Activities		
Principal payments received on mortgages receivable	37,600	35,104
Purchase of investments	(16,481,462)	(7,937,670)
Proceeds from the disposition of investments	16,367,088	6,410,755
Purchase of property and equipment	(85,119)	(9,137)
Net cash used in investing activities	(161,893)	(1,500,948)
Financing Activities		
Proceeds from contributions and investment income restricted for long-term investment	1,065,075	2,147,881
Payments on annuity and trust obligations	(132,149)	-
Proceeds from issuance of notes payable	286,000	-
Principal payments on notes payable	(7,241)	-
Net cash provided by financing activities	1,211,685	2,147,881
Increase (Decrease) in Cash and Cash Equivalents	55,249	(574,636)
Cash and Cash Equivalents, Beginning of Year	180,525	755,161
Cash and Cash Equivalents, End of Year	$ 235,774	$ 180,525

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, 2012 and 2011, cash equivalents consisted primarily of money market accounts and a repurchase agreement.

At June 30, 2012, the Foundation's interest-bearing cash accounts did not exceed federally insured limits. The Foundation does have a daily repurchase agreement that is not subject to FDIC insurance limits.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the $250,000 limit on FDIC insurance per covered institution.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at 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.

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
Funiture 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, 2012 and 2011.

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.

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 2009.

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.

Subsequent Events

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

Note 2: Restatement of Prior Year Financial Statements

During 2012, the Foundation determined that certain funds had been misclassified between unrestricted, temporarily and permanently restricted net asset categories. In addition, a revocable trust was inappropriately recorded as an asset on the financial statements. The 2011 financial statements have been restated to correct these errors. The following financial statement line items were affected by the restatement:

	As Restated	As Previously Reported	Effect of Change
Statement of Financial Position			
Beneficial interests in trusts	$ 6,058,066	$ 6,259,931	$ (201,865)
Total assets	80,088,567	80,290,432	(201,865)
Net assets - unrestricted	4,596,139	4,507,910	88,229
Net assets - temporarily restricted	23,615,060	18,991,802	4,623,258
Net assets - permanently restricted	50,110,084	55,023,436	(4,913,352)
Total net assets	78,321,283	78,523,148	(201,865)
Total liabilities and net assets	80,088,567	80,290,432	(201,865)
Statement of Activities			
Contributions - temporarily restricted	1,247,502	1,218,957	28,545
Contributions - permanently restricted	1,801,622	1,830,167	(28,545)
Change in beneficial interests in trusts - temporarily restricted	34,039	-	34,039
Change in beneficial interests in trusts - permanently restricted	1,212,815	1,246,854	(34,039)
Investment return - unrestricted	1,155,679	1,536,466	(380,787)
Investment return - temporarily restricted	9,902,913	9,513,406	389,507
Investment return - permanently restricted	308,994	317,714	(8,720)
Net assets released from restrictions - unrestricted	4,254,072	4,167,720	86,352
Net assets released from restrictions - temporarily restricted	(4,254,072)	(4,167,720)	(86,352)
Total revenues, gains and other support - unrestricted	5,876,200	6,170,635	(294,435)
Total revenues, gains and other support - temporarily restricted	7,076,766	6,711,027	365,739
Total revenues, gains and other support - permanently restricted	3,280,515	3,351,819	(71,304)
Change in net assets - unrestricted	1,049,876	1,344,311	(294,435)
Change in net assets - temporarily restricted	7,076,766	6,711,027	365,739
Change in net assets - permanently restricted	3,279,464	3,350,768	(71,304)
Net assets, beginning of year - unrestricted	3,546,263	3,163,599	382,664
Net assets, beginning of year - temporarily restricted	16,538,294	12,280,775	4,257,519
Net assets, beginning of year - permanently restricted	46,830,620	51,672,668	(4,842,048)
Net assets, end of year - unrestricted	4,596,139	4,507,910	88,229
Net assets, end of year - temporarily restricted	23,615,060	18,991,802	4,623,258
Net assets, end of year - permanently restricted	50,110,084	55,023,436	(4,913,352)

Note 3: Investments and Investment Return

Investments

Investments at June 30, 2012 and 2011 consisted of the following:

	2012	2011
Money markets accounts	$ 301,663	$ 594,315
Certificates of deposit	459,162	455,156
Cash surrender value of life insurance	929,442	882,602
Fixed income mutual funds		
Intermediate-term bond	7,649,755	7,066,809
Other fixed income mutual funds	5,025,257	5,696,667
Equity mutual funds		
Large growth	7,001,940	7,669,879
Foreign large blend	10,857,425	11,822,778
Other equity mutual funds	7,056,537	7,462,936
Exchange traded funds	2,287,644	3,007,998
Common trust equity funds	4,489,182	4,802,168
Common trust fixed income funds	2,202,622	2,049,886
Hedge funds	10,321,159	10,463,074
Real estate and real estate partnerships	2,823,233	2,272,861
Private equity and natural resources limited partnerships	7,009,522	5,987,209
	$ 68,414,543	$ 70,234,338

Investment Return

Total investment return is comprised of the following:

	2012	2011
Interest and dividend income	$ 1,246,654	$ 1,280,594
Net realized gains	1,099,162	380,786
Net unrealized gains (losses)	(3,033,331)	8,883,690
Partnership distributions	765,472	822,516
	$ 77,957	$ 11,367,586

Investment return is net of investment fees which were $117,744 and $126,029 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011 consist of the following:

	Fair Value		Unfunded Commitments		Redemption	Redemption
	2012	2011	2012	2011	Frequency	Notice Period
Common trust funds (A)	$ 6,691,804	$ 6,852,054	N/A	N/A	Daily, monthly	2 - 7 days
Hedge funds (B)	10,321,159	10,463,074	N/A	N/A	Quarterly	60 - 95 days
Real estate partnerships (C)	2,823,233	2,272,861	N/A	N/A	Quarterly	90 days
Private equity and natural resource partnerships (D)	7,009,522	5,987,209	$7,294,600	$7,050,010	At fund discretion	None

(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. 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. 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 4: Contributions Receivable

Contributions receivable at June 30, 2012 and 2011 consisted of the following:

	2012	2011
Due within one year	$ 266,734	$ 302,255
Due in one to five years	206,998	280,509
Due in more than five years	2,100	150
	475,832	582,914
Less		
Allowance for uncollectible contributions	14,275	17,487
Unamortized discount	29,324	34,136
	$ 432,233	$ 531,291

A discount rate of 3.25% was used for 2012 and 2011.

Note 5: Mortgages Receivable

Mortgages receivable at June 30, 2012 and 2011 consisted of the following:

	2012	2011
Due from University fraternity; matures July 1, 2012. The note bears interest at 6.5% per annum and is due in monthly principal and interest payments; collateralized by real estate	$ -	$ 10,422
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	674,196	678,228
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	120,950	137,798
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	71,734	72,214
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	193,798	199,616
	$ 1,060,678	$ 1,098,278

At June 30, 2012 and 2011, 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, 2012 and 2011.

Note 6: 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 $7,211,410 and $6,058,066, respectively, which represents the fair value of the trusts' assets at June 30, 2012 and 2011. The income from these trusts for 2012 and 2011 was $572,588 and $395,624, respectively.

Note 7: Property and Equipment

Property and equipment at June 30, 2012 and 2011 consisted of the following:

	2012	2011
Land	$ 313,263	$ 313,263
Buildings and improvements	2,538,844	2,538,844
Furniture and equipment	276,298	194,733
	3,128,405	3,046,840
Less accumulated depreciation	1,305,892	1,234,621
	$ 1,822,513	$ 1,812,219

Note 8: Note Payable

During 2012, the Foundation issued a promissory note to a bank that matures on May 1, 2015. At June 30, 2012, the balance on this note was $278,759. 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:

2013	$ 91,665
2014	95,694
2015	91,400
	$ 278,759

Note 9: 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, 2012 and 2011 of $489,885 and $470,577, 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 $1,338,889 and $1,444,968 as of June 30, 2012 and 2011, respectively, and included in the investments in the Foundation's statements of financial position. The Foundation has recorded a liability at June 30, 2012 and 2011 of $1,018,440 and $1,062,646, 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 beneficiaries 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 10: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011 were available for the following purposes:

	2012	2011 *(Restated-Note 2)*
Scholarships	$ 12,470,908	$ 14,390,469
Amounts available for the benefit of ESU departments and organizations	8,196,332	8,698,104
Donor advised funds	-	500
Outside entities	8,037	7,351
Greatest need	1,121,576	518,636
	$ 21,796,853	$ 23,615,060

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2012 and 2011 are restricted for:

	2012	2011 *(Restated-Note 2)*
Scholarships	$ 37,781,714	$ 36,941,397
Amounts available for the benefit of ESU departments and organizations	9,303,098	9,227,292
Donor advised funds	176,490	111,691
Greatest need	4,265,213	3,829,704
	$ 51,526,515	$ 50,110,084

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.

	2012	2011 (Restated-Note 2)
Scholarships	$ 1,833,376	$ 2,009,056
Amounts available for the benefit of ESU departments and organizations	1,198,990	901,297
Internal management fees	1,270,567	1,343,719
	$ 4,302,933	$ 4,254,072

Note 11: 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

The composition of net assets by type of endowment fund at June 30, 2012 and 2011 was:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ (127,828)	$ 14,063,756	$ 44,090,702	$ 58,026,630
Board-designated	1,600,143	-	-	1,600,143
Total endowment funds	$ 1,472,315	$ 14,063,756	$ 44,090,702	$ 59,626,773

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(Restated - Note 2)		
Donor-restricted	$ (25,961)	$ 16,937,344	$ 42,709,667	$ 59,621,050
Board-designated	1,688,231	-	-	1,688,231
Total endowment funds	$ 1,662,270	$ 16,937,344	$ 42,709,667	$ 61,309,281

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Changes in endowment net assets for the years ended June 30, 2012 and 2011 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(Restated - Note 2)		
Endowment net assets, July 1, 2010	$ 560,380	$ 10,232,441	$ 41,095,143	$ 51,887,964
Investment return				
Investment income	247,839	1,820,271	-	2,068,110
Net appreciation	1,104,012	8,108,500	-	9,212,512
Total investment return	1,351,851	9,928,771	-	11,280,622
Contributions	52	27,712	1,614,524	1,642,288
Appropriation of endowment assets for expenditures	(51,691)	(1,794,988)	-	(1,846,679)
Administration and management fees	(198,322)	(1,456,592)	-	(1,654,914)
Endowment net assets, June 30, 2011	1,662,270	16,937,344	42,709,667	61,309,281
Investment return				
Investment income	191,704	1,769,488	-	1,961,192
Net depreciation	(178,552)	(1,648,097)	-	(1,826,649)
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

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2012 and 2011 consisted of:

	2012	2011 (Restated- Note 2)
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	$ 44,090,702	$ 42,709,667
Temporarily restricted net assets		
Term endowment funds	$ 5,599,199	$ 5,834,507
Portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	8,464,557	11,102,837
	$ 14,063,756	$ 16,937,344

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 $127,828 and $25,961 at June 30, 2012 and 2011, 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 8.6% while assuming an 11.5% level of investment risk. 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, 2012 and 2011 appropriations were

June 30, 2011 and December 31, 2010, respectively. Quarterly, the Foundation assesses a 0.5% administration fee on its endowment fund's market value. 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 3.1% 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 12: 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, 2012 and 2011, the Foundation received funding from the University of $21,064 and $127,871, respectively, for personnel services. The Foundation made payments to the University for the years ended June 30, 2012 and 2011 of $1,300,833 and $1,284,359, respectively, which consisted of $1,175,992 and $1,152,716, respectively, for personnel services, and $124,841 and $131,643, respectively, for supplies and services.

Note 13: 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.

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 14: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Recurring Measurements

The following table presents the fair value measurements of assets 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, 2012 and 2011:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2012				
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	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
	$ 74,237,349	$ 40,180,221	$ 20,340,234	$ 13,716,894

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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)
June 30, 2011		*(Restated - See Note 2)*		
Investments				
Money markets accounts	$ 594,315	$ 594,315	$ -	$ -
Fixed income mutual funds				
Intermediate-term bond	7,066,809	7,066,809	-	-
Other fixed income mutual funds	5,696,667	5,696,667	-	-
Equity mutual funds				
Large growth	7,669,879	7,669,879	-	-
Foreign large blend	11,822,778	11,822,778	-	-
Other equity mutual funds	7,462,936	7,462,936	-	-
Exchange traded funds	3,007,998	3,007,998	-	-
Common trust equity funds	4,802,168	-	4,802,168	-
Common trust fixed income funds	2,049,886	-	2,049,886	-
Hedge funds	10,463,074	-	10,463,074	-
Real estate and real estate partnerships	2,272,861	-	2,272,861	-
Private equity and natural resources limited partnerships	5,987,209	-	-	5,987,209
Beneficial interests in trusts	6,058,066	-	548,990	5,509,076
	$ 74,954,646	$ 43,321,382	$ 20,136,979	$ 11,496,285

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, 2012. 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, defaults, 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 based on the Foundation's beneficial interests in the trust assets which represents the present value of the future distributions expected to be received over the term of the agreement. 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. When underlying investments within the trusts are valued utilizing significant unobservable inputs, the investments are categorized as Level 3 in the hierarchy.

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:

	Private Equity and Natural Resources Limited Partnerships	Beneficial Interests in Trusts
Balance, July 1, 2010	$ 4,934,603	$ 4,252,069
Unrealized appreciation on investments	895,439	1,257,007
Purchases	1,350,155	-
Sales	(1,192,988)	-
Balance, June 30, 2011	5,987,209	5,509,076
Unrealized appreciation (depreciation) on investments	(338,855)	375,649
Purchases	1,362,722	822,647
Sales	(1,554)	-
Balance, June 30, 2012	$ 7,009,522	$ 6,707,372
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, 2011	$ 895,439	$ 1,257,007
Year ended June 30, 2012	$ (338,855)	$ 375,649

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

Note 15: Significant Concentrations and Uncertainties

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 10% of all contributions were received from one donor in 2011. 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 6.

Annuities and Trusts Payable

Estimates related to the valuation of annuities and trusts payable are described in Note 9.