

Emporia State University Foundation, Inc.

Independent Auditor's Report and Financial Statements

June 30, 2016 and 2015



Emporia State University Foundation, Inc.
June 30, 2016 and 2015

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Emporia State University Foundation, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, 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
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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, 2016 and 2015, 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.

BKD, LLP

Kansas City, Missouri
October 31, 2016

Emporia State University Foundation, Inc.
Statements of Financial Position
June 30, 2016 and 2015

Assets

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 538,499	\$ 1,523,009
Mortgages receivable	298,925	319,777
Investments	80,430,310	81,098,064
Contributions receivable, net of allowance; 2016 - \$302,561, 2015 - \$331,543	7,796,619	6,330,479
Beneficial interests in trusts	8,720,151	9,284,112
Property and equipment, net of accumulated depreciation; 2016 - \$1,610,779, 2015 - \$1,555,800	1,696,880	1,753,556
Other assets	<u>205,409</u>	<u>200,364</u>
Total assets	<u>\$ 99,686,793</u>	<u>\$ 100,509,361</u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 135,981	\$ 781,124
Accrued expenses	218,921	238,350
Annuity and trust obligations	<u>1,347,743</u>	<u>1,401,738</u>
Total liabilities	<u>1,702,645</u>	<u>2,421,212</u>

Net Assets

Unrestricted	6,083,744	6,048,725
Temporarily restricted	30,543,755	33,386,700
Permanently restricted	<u>61,356,649</u>	<u>58,652,724</u>
Total net assets	<u>97,984,148</u>	<u>98,088,149</u>
Total liabilities and net assets	<u>\$ 99,686,793</u>	<u>\$ 100,509,361</u>

Emporia State University Foundation, Inc.

Statement of Activities Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	\$ 196,658	\$ 5,626,005	\$ 3,379,796	\$ 9,202,459
Interest and dividends	450,808	844,321	27,121	1,322,250
Net realized gains on investments	190,884	1,155,485	44,669	1,391,038
Net unrealized losses on investments	(111,273)	(3,335,242)	(65,064)	(3,511,579)
Limited partnership investment return	177,816	1,228,401	17,656	1,423,873
Change in beneficial interests in trusts	-	44,459	(641,914)	(597,455)
Loss on annuity and trust obligations	(13,045)	(7,058)	(18,147)	(38,250)
Other	18,190	46,378	-	64,568
Change in donor intent	(99,119)	135,515	(36,396)	-
Net assets released from restrictions	8,580,668	(8,580,668)	-	-
	<u>9,391,587</u>	<u>(2,842,404)</u>	<u>2,707,721</u>	<u>9,256,904</u>
Total revenues, gains (losses) and other support				
Expenses and Losses				
Program	6,816,196	-	-	6,816,196
Management and general	1,245,408	-	-	1,245,408
Fundraising	1,294,964	541	3,796	1,299,301
	<u>9,356,568</u>	<u>541</u>	<u>3,796</u>	<u>9,360,905</u>
Total expenses and losses				
Change in Net Assets	35,019	(2,842,945)	2,703,925	(104,001)
Net Assets, Beginning of Year	<u>6,048,725</u>	<u>33,386,700</u>	<u>58,652,724</u>	<u>98,088,149</u>
Net Assets, End of Year	<u>\$ 6,083,744</u>	<u>\$ 30,543,755</u>	<u>\$ 61,356,649</u>	<u>\$ 97,984,148</u>

Emporia State University Foundation, Inc.
Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	\$ 168,062	\$ 8,202,815	\$ 2,084,819	\$ 10,455,696
Interest and dividends	470,860	904,405	28,249	1,403,514
Net realized gains on investments	168,247	879,205	129,088	1,176,540
Net unrealized losses on investments	(342,740)	(1,945,639)	(64,375)	(2,352,754)
Limited partnership investment return	285,741	1,521,162	12,616	1,819,519
Change in beneficial interests in trusts	-	(15,830)	820,958	805,128
Loss on annuity and trust obligations	(12,882)	(8,647)	(35,480)	(57,009)
Other	48,226	42,600	-	90,826
Change in donor intent	32,882	(60,202)	27,320	-
Net assets released from restrictions	9,402,609	(9,402,609)	-	-
	<u>10,221,005</u>	<u>117,260</u>	<u>3,003,195</u>	<u>13,341,460</u>
Expenses and Losses				
Program	6,769,964	-	-	6,769,964
Management and general	1,465,311	-	-	1,465,311
Fundraising	1,315,732	201,575	(25,561)	1,491,746
	<u>9,551,007</u>	<u>201,575</u>	<u>(25,561)</u>	<u>9,727,021</u>
Change in Net Assets	669,998	(84,315)	3,028,756	3,614,439
Net Assets, Beginning of Year	<u>5,378,727</u>	<u>33,471,015</u>	<u>55,623,968</u>	<u>94,473,710</u>
Net Assets, End of Year	<u>\$ 6,048,725</u>	<u>\$ 33,386,700</u>	<u>\$ 58,652,724</u>	<u>\$ 98,088,149</u>

Emporia State University Foundation, Inc.
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Change in net assets	\$ (104,001)	\$ 3,614,439
Items not requiring (providing) operating activities cash flows		
Depreciation	113,171	113,476
Net realized and unrealized gains (losses) on investments	696,668	(643,305)
Loss on annuity and trust obligations	38,250	57,009
Change in beneficial interests in trusts	597,455	(805,128)
Contributions and investment income received restricted for long-term investment	(3,406,917)	(2,113,068)
Changes in		
Contributions receivable	(1,567,718)	(1,715,623)
Beneficial interests in trusts	(33,494)	(390,099)
Other assets	(5,045)	(39,817)
Accounts payable and accrued expenses	(664,572)	578,783
	<u>(4,336,203)</u>	<u>(1,343,333)</u>
Investing Activities		
Principal payments received on mortgages receivable	20,852	684,636
Purchase of investments	(10,227,511)	(19,214,167)
Proceeds from the disposition of investments	10,198,597	20,016,055
Purchase of property and equipment	(56,495)	(161,697)
	<u>(64,557)</u>	<u>1,324,827</u>
Financing Activities		
Proceeds from contributions and investment income restricted for long-term investment	3,508,495	1,427,180
Payments on annuity and trust obligations	(92,245)	(158,906)
Principal payments on notes payable	-	(91,494)
	<u>3,416,250</u>	<u>1,176,780</u>
Increase (Decrease) in Cash and Cash Equivalents	(984,510)	1,158,274
Cash and Cash Equivalents, Beginning of Year	<u>1,523,009</u>	<u>364,735</u>
Cash and Cash Equivalents, End of Year	<u>\$ 538,499</u>	<u>\$ 1,523,009</u>

Emporia State University Foundation, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

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

Nature of Operations

Emporia State University Foundation, Inc. (the 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, 2016 and 2015, cash equivalents consisted primarily of a daily repurchase agreement which is not subject to FDIC insurance limits. At June 30, 2016, 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 recorded at net asset value (NAV), as a practical expedient 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 is reported as temporarily or permanently restricted until the purpose restriction is accomplished. Investment return having donor stipulations that are satisfied in the period received are reported as temporarily restricted and then released from restriction. Other investment return is reflected in the statement of activities as

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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
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, 2016 and 2015.

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 Trustees 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

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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 temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

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.

Functional Allocation of Expenses

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

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Notes to Financial Statements

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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 Auditor's Report, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Investments and Investment Return

Investments

Investments at June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Money markets accounts	\$ 2,951,722	\$ 342,298
Certificates of deposit	455,997	452,602
Cash surrender value of life insurance	910,738	883,266
Fixed income mutual funds		
Intermediate-term bond	6,734,698	7,052,182
Other fixed income mutual funds	2,979,043	3,255,539
Equity mutual funds		
Domestic equities	16,476,540	14,261,210
International equities	16,119,094	16,941,377
Other equity mutual funds	2,667,521	3,116,804
U.S. Savings bonds	80,003	76,739
Common trust fixed income funds	1,130,809	1,048,489
Hedge funds and fixed income partnerships	15,955,145	19,666,896
Real estate and real estate partnerships	4,754,051	4,117,870
Private equity and natural resources limited partnerships	9,214,949	9,882,792
	<u>\$ 80,430,310</u>	<u>\$ 81,098,064</u>

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Investment Return

Total investment return is comprised of the following:

	2016	2015
Interest and dividend income	\$ 1,322,250	\$ 1,403,514
Net realized gains	1,391,038	1,176,540
Net unrealized losses	(3,511,579)	(2,352,754)
Partnership distributions	1,423,873	1,819,519
	\$ 625,582	\$ 2,046,819

Investment return is net of investment fees which were \$118,567 and \$121,183 for the years ended June 30, 2016 and 2015, 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 as a practical expedient. Alternative investments held at June 30, 2016 and 2015 consist of the following:

	Fair Value		Unfunded		Redemption Frequency	Redemption Notice Period
	2016	2015	2016	2015		
Common trust funds (A)	\$ 1,130,809	\$ 1,048,489	N/A	N/A	Monthly	1 - 10 days
Hedge funds and fixed income partnerships (B)	15,955,145	19,666,896	N/A	N/A	Quarterly	95 - 100 days
Real estate partnerships (C)	4,183,374	3,730,925	N/A	N/A	Quarterly	90 days
Private equity and natural resource partnerships (D)	9,214,949	9,882,792	\$4,213,715	\$4,967,290	At fund discretion	N/A
Total alternative investments	\$30,484,277	\$34,329,102				

- (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

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securities and other securities. The Foundation has invested with one common trust fund, which 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 Foundation's hedge funds have initial lock-up periods ranging from zero to one year, and thereafter require between 95 and 100 days of advance notice prior to quarterly redemption windows.
- (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. Redemption 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, 2016 and 2015 consisted of the following unconditional promises to give discounted at a rate of 3.25%:

	<u>2016</u>	<u>2015</u>
Due within one year	\$ 2,270,092	\$ 1,379,149
Due in one to five years	4,424,331	3,377,428
Due in more than five years	<u>2,556,300</u>	<u>3,008,700</u>
	9,250,723	7,765,277
Less		
Allowance for uncollectible contributions	302,561	331,543
Unamortized discount	<u>1,151,543</u>	<u>1,103,255</u>
	<u>\$ 7,796,619</u>	<u>\$ 6,330,479</u>

Emporia State University Foundation, Inc.
Notes to Financial Statements
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Note 4: Mortgages Receivable

Mortgages receivable at June 30, 2016 and 2015 consisted of the following:

	2016	2015
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	\$ 76,238	\$ 82,803
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	69,498	70,108
Due from University fraternity; matures March 1, 2028. The note bears interest at 6.0% per annum and is due in monthly principal and interest payments; collateralized by real estate	153,189	166,866
	\$ 298,925	\$ 319,777

At June 30, 2016 and 2015, 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, 2016 and 2015.

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 \$8,720,151 and \$9,284,112, respectively, which represents the fair value of the trusts' assets at June 30, 2016 and 2015. The income from these trusts for 2016 and 2015 was \$372,710 and \$384,879, respectively.

Emporia State University Foundation, Inc.
Notes to Financial Statements
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Note 6: Property and Equipment

Property and equipment at June 30, 2016 and 2015 consisted of the following:

	2016	2015
Land	\$ 313,263	\$ 313,263
Buildings and improvements	2,692,488	2,692,488
Furniture and equipment	301,908	303,605
	3,307,659	3,309,356
Less accumulated depreciation	1,610,779	1,555,800
	\$ 1,696,880	\$ 1,753,556

Note 7: 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, 2016 and 2015 of \$375,584 and \$383,688, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates of 2.0% 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 \$1,308,904 and \$1,366,805 as of June 30, 2016 and 2015, respectively, and included in the investments in the Foundation's statements of financial position. The Foundation has recorded a liability at June 30, 2016 and 2015 of \$972,159 and \$1,018,050, 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.

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Note 8: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 were available for the following purposes:

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 12,733,769	\$ 16,949,626
Amounts available for the benefit of ESU departments and organizations	16,644,477	14,886,501
Greatest need	1,154,660	1,540,481
Outside entities	<u>10,849</u>	<u>10,092</u>
	<u>\$ 30,543,755</u>	<u>\$ 33,386,700</u>

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2016 and 2015 are restricted for:

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 46,102,906	\$ 42,998,888
Amounts available for the benefit of ESU departments and organizations	8,720,597	8,558,808
Greatest need	5,461,396	5,960,940
Donor advised funds	<u>1,071,750</u>	<u>1,134,088</u>
	<u>\$ 61,356,649</u>	<u>\$ 58,652,724</u>

Emporia State University Foundation, Inc.
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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.

	2016	2015
Scholarships	\$ 2,887,495	\$ 4,575,311
Amounts available for the benefit of ESU departments and organizations	3,231,788	2,033,978
Internal management fees	2,461,385	2,793,320
	\$ 8,580,668	\$ 9,402,609

Note 9: 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

Emporia State University Foundation, Inc.
Notes to Financial Statements
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The composition of net assets by type of endowment fund at June 30, 2016 and 2015 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2016				
Donor-restricted	\$ (80,933)	\$ 15,793,905	\$ 51,309,774	\$ 67,022,746
Board-designated	1,809,001	-	-	1,809,001
	<u>\$ 1,728,068</u>	<u>\$ 15,793,905</u>	<u>\$ 51,309,774</u>	<u>\$ 68,831,747</u>
June 30, 2015				
Donor-restricted	\$ (559)	\$ 20,717,646	\$ 48,046,551	\$ 68,763,638
Board-designated	1,945,855	-	-	1,945,855
	<u>\$ 1,945,296</u>	<u>\$ 20,717,646</u>	<u>\$ 48,046,551</u>	<u>\$ 70,709,493</u>

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Changes in endowment net assets for the years ended June 30, 2016 and 2015 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2014	\$ 2,040,548	\$ 24,128,885	\$ 45,734,094	\$ 71,903,527
Investment return				
Investment income	94,237	3,226,112	-	3,320,349
Net depreciation	(57,673)	(1,962,671)	-	(2,020,344)
Total investment return	36,564	1,263,441	-	1,300,005
Contributions	3,662	723,339	2,284,723	3,011,724
Appropriation of endowment assets for expenditures	(58,200)	(2,596,242)	-	(2,654,442)
Administration and management fees	(77,278)	(2,793,320)	-	(2,870,598)
Change in donor intent	-	(8,457)	27,734	19,277
Endowment net assets, June 30, 2015	1,945,296	20,717,646	48,046,551	70,709,493
Investment return				
Investment income	87,214	3,137,470	-	3,224,684
Net depreciation	(174,878)	(3,270,702)	-	(3,445,580)
Total investment return	(87,664)	(133,232)	-	(220,896)
Contributions	15,075	152,034	3,243,196	3,410,305
Appropriation of endowment assets for expenditures	(72,200)	(2,477,433)	-	(2,549,633)
Administration and management fees	(72,439)	(2,461,013)	-	(2,533,452)
Change in donor intent	-	(4,097)	20,027	15,930
Endowment net assets, June 30, 2016	\$ 1,728,068	\$ 15,793,905	\$ 51,309,774	\$ 68,831,747

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Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2016 and 2015 consisted of:

	2016	2015
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	<u>\$ 51,309,774</u>	<u>\$ 48,046,551</u>
Temporarily restricted net assets		
Term endowment funds	\$ 6,388,242	\$ 6,857,736
Portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	<u>9,405,663</u>	<u>13,859,910</u>
	<u>\$ 15,793,905</u>	<u>\$ 20,717,646</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 \$80,933 and \$559 at June 30, 2016 and 2015, 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 7.7% while assuming a 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. In addition, the Foundation assesses an annual administration fee of 3.5% and 4% for 2016 and 2015, respectively, on its endowment fund's market value on the valuation date factored by the prior 12 quarter rolling average market value. The valuation date for the July 1, 2015

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appropriation was June 30, 2014. The valuation date for the July 1, 2016 appropriation is June 30, 2015. Effective July 1, 2016, the Foundation reduced the annual administration fee to 3.0%. 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 1.2% 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 10: 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, 2016 and 2015, the Foundation received funding from the University of \$12,801 and \$15,845, respectively, for personnel services. The Foundation made payments to the University for the years ended June 30, 2016 and 2015 of \$1,839,277 and \$1,955,126, respectively, which consisted of \$1,720,517 and \$1,851,476, respectively, for personnel services, and \$118,760 and \$103,650, respectively, for supplies and services.

Note 11: 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 benefit 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 12: 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, 2016 and 2015:

	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, 2016				
Investments				
Money markets accounts	\$ 2,951,722	\$ 2,951,722	\$ -	\$ -
Fixed income mutual funds				
Intermediate-term bond	6,734,698	6,734,698	-	-
Other fixed income mutual funds	2,979,043	2,979,043	-	-
Equity mutual funds				
Domestic equities	16,476,540	16,476,540	-	-
International equities	16,119,094	16,119,094	-	-
Other equity mutual funds	2,667,521	2,667,521	-	-
U.S. Savings bonds	80,003	-	80,003	-
Real estate	570,677	-	570,677	-
Total investments	48,579,298	47,928,618	650,680	-
Beneficial interests in trusts	8,720,151	-	276,219	8,443,932
	<u>\$ 57,299,449</u>	<u>\$ 47,928,618</u>	<u>\$ 926,899</u>	<u>\$ 8,443,932</u>

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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, 2015				
Investments				
Money markets accounts	\$ 342,298	\$ 342,298	\$ -	\$ -
Fixed income mutual funds				
Intermediate-term bond	7,052,182	7,052,182	-	-
Other fixed income mutual funds	3,255,539	3,255,539	-	-
Equity mutual funds				
Domestic equities	14,261,210	14,261,210	-	-
International equities	16,941,377	16,941,377	-	-
Other equity mutual funds	3,116,804	3,116,804	-	-
U.S. Savings bonds	76,739	-	76,739	-
Real estate	386,945	-	386,945	-
Total investments	45,433,094	44,969,410	463,684	-
Beneficial interests in trusts	9,284,112	-	303,691	8,980,421
	<u>\$ 54,717,206</u>	<u>\$ 44,969,410</u>	<u>\$ 767,375</u>	<u>\$ 8,980,421</u>

Investments included in the fair value hierarchy above reconcile to the statements of financial position as follows:

	<u>2016</u>	<u>2015</u>
Investments recorded at		
Fair value and included above	\$ 48,579,298	\$ 45,433,094
Assets not at fair value	1,366,735	1,335,868
Net asset value	<u>30,484,277</u>	<u>34,329,102</u>
 Total investments and beneficial interests in trusts	 <u>\$ 80,430,310</u>	 <u>\$ 81,098,064</u>

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. There have been no significant changes in the valuation techniques during the year ended June 30, 2016. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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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.

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.

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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:

	Beneficial Interests in Trusts
Balance, June 30, 2014	\$ 7,760,360
Unrealized appreciation on investments	808,938
Contributions	411,123
Balance, June 30, 2015	8,980,421
Unrealized depreciation on investments	(594,589)
Contributions	58,100
Balance, June 30, 2016	\$ 8,443,932
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, 2015	\$ 808,938
Year ended June 30, 2016	\$ (594,589)

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

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Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

	Fair Value 6/30/2016	Valuation Technique	Unobservable Inputs	Range (weighted average)
Beneficial interest in trusts	\$ 8,443,932	Estimated value of the expected future cash flows	Fair value of the underlying assets as reported by the trustee	None
	Fair Value 6/30/2015	Valuation Technique	Unobservable Inputs	Range (weighted average)
Beneficial interest in trusts	\$ 8,980,421	Estimated value of the expected future cash flows	Fair value of the underlying assets as reported by the trustee	None

Note 13: 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:

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.

Contributions and Contributions Receivable

Approximately 22% of all contributions were received from one donor in 2016. Approximately 63% of all contributions receivable were received from two donors in 2016.

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Functional Allocation of Expenses

Significant estimates relating to the allocation of expenses on a functional basis are described in Note 1.

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 7.