

Emporia State University Foundation, Inc.

Accountants' Report and Financial Statements

June 30, 2011



Emporia State University Foundation, Inc.
June 30, 2011

Contents

Independent Accountants' Report	1
Financial Statements	
Statement of Financial Position.....	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5

Independent Accountants' Report

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

We have audited the accompanying statement of financial position of Emporia State University Foundation, Inc. as of June 30, 2011, and the related statements of activities and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides 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, 2011 and the changes in its net assets and its cash flows for the year 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, beneficial interests in trusts, liabilities and split interest agreements by retroactively restating beginning net assets.

BKD, LLP

Kansas City, Missouri
January 30, 2012

Emporia State University Foundation, Inc.
Statement of Financial Position
June 30, 2011

Assets

Cash and cash equivalents	\$ 180,525
Accounts receivable	22,731
Mortgages receivable	1,098,278
Loan funds held at Emporia State University	75,892
Investments	70,234,338
Contributions receivable, net of allowance; \$17,487	531,291
Beneficial interests in trusts	6,259,931
Property and equipment, net	1,812,219
Other assets	<u>75,227</u>
Total assets	<u><u>\$ 80,290,432</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 55,175
Accrued expenses	178,886
Annuities and trusts payable	<u>1,533,223</u>
Total liabilities	<u>1,767,284</u>

Net Assets

Unrestricted	4,507,910
Temporarily restricted	18,991,802
Permanently restricted	<u>55,023,436</u>
Total net assets	<u>78,523,148</u>
Total liabilities and net assets	<u><u>\$ 80,290,432</u></u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	\$ 324,445	\$ 1,218,957	\$ 1,830,167	\$ 3,373,569
Change in beneficial interest in perpetual trust	-	-	1,246,854	1,246,854
Investment return	1,536,466	9,513,406	317,714	11,367,586
Actuarial 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	4,167,720	(4,167,720)	-	-
Total revenues, gains and other support	6,170,635	6,711,027	3,351,819	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	1,344,311	6,711,027	3,350,768	11,406,106
Net Assets, Beginning of Year, as Previously Reported	2,957,343	4,162,372	57,762,897	64,882,612
Restatements (Note 2)	206,256	8,118,403	(6,090,229)	2,234,430
Net Assets, Beginning of Year, as Restated	3,163,599	12,280,775	51,672,668	67,117,042
Net Assets, End of Year	\$ 4,507,910	\$ 18,991,802	\$ 55,023,436	\$ 78,523,148

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

Operating Activities

Change in net assets	\$ 11,406,106
Items not requiring (providing) operating activities cash flows	
Depreciation	78,568
Loss on sale of equipment	14,581
Net realized and unrealized gains on investments	(9,264,476)
Actuarial loss on annuity and trust obligations	113,007
Gain on beneficial interest in perpetual trust	(1,246,854)
Proceeds from contributions and investment income restricted for long-term investment	(1,948,881)
In-kind contributions	(199,000)
Noncash contribution of trust	(286,640)
Changes in	
Accounts receivable	(22,731)
Contributions receivable	181,826
Accounts payable and accrued expenses	82,631
Charitable remainder trust and gift annuities liability	(152,638)
Other receivables	22,932
	<u>(1,221,569)</u>
Net cash used in operating activities	<u>(1,221,569)</u>

Investing Activities

Principal payments received on mortgages receivable	35,104
Purchase of investments	(7,937,670)
Proceeds from the disposition of investments	6,410,755
Purchase of property and equipment	(9,137)
	<u>(1,500,948)</u>
Net cash used in investing activities	<u>(1,500,948)</u>

Financing Activities

Proceeds from contributions and investment income restricted for long-term investment	<u>2,147,881</u>
Net cash provided by financing activities	<u>2,147,881</u>

Decrease in Cash and Cash Equivalents (574,636)

Cash and Cash Equivalents, Beginning of Year 755,161

Cash and Cash Equivalents, End of Year \$ 180,525

Emporia State University Foundation, Inc.

Notes to Financial Statements

June 30, 2011

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

The financial institution holding the Foundation's cash accounts is participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At June 30, 2011, 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.

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.

Emporia State University Foundation, Inc.

Notes to Financial Statements

June 30, 2011

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.

Notes Receivable

Notes 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 year ended June 30, 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.

Emporia State University Foundation, Inc.

Notes to Financial Statements

June 30, 2011

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. For the year ended June 30, 2011, \$199,000 was received in in-kind contributions.

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 2008.

Functional Allocation of Expenses

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

Transfers Between Fair Value Hierarchy Levels

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

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2011

Subsequent Events

Subsequent events have been evaluated through January 30, 2012, which is the date the financial statements were available to be issued.

Note 2: Restatement of Prior Year Financial Statements

In prior years, the Foundation did not properly record and report accrued liabilities for leave, payroll and retirement; funds held for others; beneficial interests in trusts; charitable remainder unitrust and charitable annuity liabilities; or classifications of endowed net assets between unrestricted, temporarily and permanently restricted categories.

The effect of the above changes to beginning net assets was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
To record liability for accrued leave, payroll and retirement	\$ (96,930)	\$ -	\$ -	\$ (96,930)
To remove funds recorded as "held for others" that were actually revenue of the Foundation to be distributed to other departments	-	1,397,816	-	1,397,816
To record actual interest for beneficial interest in trusts	-	-	2,227,998	2,227,998
Reclassification between net asset categories	303,186	6,947,163	(7,250,349)	-
To record liabilities for charitable remainder unitrusts and charitable annuities	-	(226,576)	(1,067,878)	(1,294,454)
	<u>\$ 206,256</u>	<u>\$ 8,118,403</u>	<u>\$ (6,090,229)</u>	<u>\$ 2,234,430</u>

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2011

Note 3: Investments and Investment Return

Investments

Investments at June 30, 2011 consisted of the following:

Money markets accounts	\$ 594,315
Certificates of deposit	455,156
Fixed income mutual funds	
Intermediate-term bond	7,066,809
Other fixed income mutual funds	5,696,667
Equity mutual funds	
Large growth	7,669,879
Foreign large blend	11,822,778
Other equity mutual funds	7,462,936
Common trust equity funds	4,802,168
Common trust fixed income funds	2,049,886
Private equity and natural resources limited partnerships	5,987,209
Cash surrender value of life insurance	882,602
Real estate and real estate partnerships	2,272,861
Exchange traded funds	3,007,998
Hedge funds non-marketable – offshore	10,463,074
	<u>\$ 70,234,338</u>

Investment Return

Total investment return is comprised of the following:

Interest and dividend income	\$ 1,280,594
Net realized gains	380,786
Net unrealized gains	8,883,690
Partnership distributions	822,516
	<u>\$ 11,367,586</u>

Investment return is net of investment fees of \$109,468.

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2011

Alternative Investments

At June 30, 2011, the Foundation held the following investments in certain entities that calculate net asset value per share or its equivalent:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Funds of hedge funds	\$ 10,463,074	None	Quarterly, semi-annual year end	60 - 95 days
Private equity and natural resources limited partnerships	5,987,209	\$ 7,050,010	At fund discretion	None
Real estate	2,272,861	None	Quarterly	90 days
Common trust funds	<u>6,852,054</u>	None	Daily, monthly	2 - 7 days
Total	<u><u>\$ 25,575,198</u></u>			

Funds of Hedge Funds

As of June 30, 2011, the Foundation had \$10,463,074 invested in funds of 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' funds of hedge funds have initial lock-up periods ranging from zero to one year, and thereafter require between 65 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 \$71,011) 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.

Private Equity and Natural Resources Limited Partnerships

As of June 30, 2011, the Foundation had \$5,987,209 invested in private equity and natural resources limited partnerships. 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.

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2011

Real Estate

As of June 30, 2011, the Foundation had \$2,272,861 invested in real estate and real estate securities. 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.

Common Trust Funds

As of June 30, 2011, the Foundation held \$6,852,054 in common trust funds, which 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.

Note 4: Contributions Receivable

Contributions receivable consisted of the following:

Due within one year	\$ 302,255
Due in one to five years	280,509
Due in more than five years	150
	582,914
Less	
Allowance for uncollectible contributions	17,487
Unamortized discount	34,136
	\$ 531,291

A discount rate of 3.25% was used for 2011.

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2011

Note 5: Notes Receivable

Notes receivable consisted of the following:

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	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	137,798
Due from University fraternity; matures July 1, 2015. The note bears interest at 6.0% per annum and is due in monthly principal and interest payments; collateralized by real estate	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	199,616
	\$ 1,098,278

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 \$6,259,931, which represents the fair value of the trusts' assets at June 30, 2011. The income from these trusts for 2011 was \$1,246,854.

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2011

Note 7: Property and Equipment

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

Land	\$ 313,263
Buildings and improvements	2,538,844
Furniture and equipment	194,733
	3,046,840
Less accumulated depreciation	1,234,621
	\$ 1,812,219

Note 8: Annuities and Trusts Payable

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The Foundation has recorded a liability at June 30, 2011 of \$470,577, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 2.5%.

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. The portion of the trust attributable to the future interest of the Foundation is recorded in the statement of activities as temporarily restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the Foundation's statement of financial position. 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 a discount provided by the Internal Revenue Service and applicable mortality tables.

Note 9: Net Assets

Temporarily Restricted Net Assets

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

Scholarships	\$ 11,289,774
Amounts available for the benefit of ESU departments and organizations	7,241,600
Donor advised funds	500
Outside entities	7,351
Greatest need	452,577
	\$ 18,991,802

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2011

Permanently Restricted Net Assets

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

Scholarships	\$ 39,742,910
Amounts available for the benefit of ESU departments and organizations	11,340,787
Donor advised funds	111,691
Greatest need	3,828,048
	\$ 55,023,436

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.

Scholarships	\$ 1,922,704
Amounts available for the benefit of ESU departments and organizations	901,297
Internal management fees	1,343,719
	\$ 4,167,720

Note 10: Endowment

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

The Foundation's governing body has interpreted the State of Kansas Prudent Management of Institutional Funds Act (SPMIFA) 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 SPMIFA.

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2011

In accordance with SPMIFA, 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, 2011 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (65,962)	\$ 12,641,135	\$ 47,366,442	\$ 59,941,615
Board-designated endowment funds	1,640,003	-	-	1,640,003
June 30, 2011	<u>\$ 1,574,041</u>	<u>\$ 12,641,135</u>	<u>\$ 47,366,442</u>	<u>\$ 61,581,618</u>

Changes in endowment net assets for the year ended June 30, 2011 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2010	\$ 177,718	\$ 6,268,376	\$ 45,824,355	\$ 52,270,449
Investment return				
Investment income	378,527	2,084,030	8,668	2,471,225
Net appreciation	1,346,649	7,414,151	-	8,760,800
Total investment return	<u>1,725,176</u>	<u>9,498,181</u>	<u>8,668</u>	<u>11,232,025</u>
Contributions	-	-	1,533,419	1,533,419
Appropriation of endowment assets	(81,745)	(1,764,934)	-	(1,846,679)
Administration and management fees	<u>(247,108)</u>	<u>(1,360,488)</u>	<u>-</u>	<u>(1,607,596)</u>
Endowment net assets, June 30, 2011	<u>\$ 1,574,041</u>	<u>\$ 12,641,135</u>	<u>\$ 47,366,442</u>	<u>\$ 61,581,618</u>

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2011

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

Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	<u>\$ 47,366,442</u>
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under SPMIFA with purpose restrictions	<u>\$ 12,641,135</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 SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$65,962 at June 30, 2011. 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 date for the June 30, 2011 appropriation was December 31, 2010. 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.

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2011

Note 11: Related Party Transactions

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

During the year ended June 30, 2011, the Foundation received funding from the University of \$127,871 for personal services. The Foundation made payments to the University for the year ended June 30, 2011 of \$1,284,359, which consisted of \$1,152,716 for personal services and \$131,643 for supplies and services.

Note 12: Retirement Plans

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

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

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.

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2011

Note 13: 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 statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money markets, fixed income, equity and exchange traded funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include common trust funds and beneficial interests in trusts. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include limited partnerships, real estate and hedge funds.

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. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2011

The following table presents the fair value measurements of assets recognized in the accompanying statement 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:

	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)
Investments				
Money markets	\$ 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	-	-
Common trust equity funds	4,802,168	-	4,802,168	-
Common trust fixed income funds	2,049,886	-	2,049,886	-
Private equity and natural resources limited partnerships	5,987,209	-	-	5,987,209
Real estate and real estate partnerships	2,272,861	-	-	2,272,861
Exchange traded funds	3,007,998	3,007,998	-	-
Hedge funds non-marketable – offshore	10,463,074	-	-	10,463,074
Beneficial interests in trusts	6,259,931	-	6,259,931	-
	<u>\$ 75,156,511</u>	<u>\$ 43,321,382</u>	<u>\$ 13,111,985</u>	<u>\$ 18,723,144</u>

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

	Private Equity and Natural Resources Partnerships	Hedge Funds	Real Estate and Real Estate Partnerships
Balance, July 1, 2010	\$ 4,934,603	\$ 9,825,088	\$ 2,044,968
Total realized and unrealized gains and losses included in change in net assets	895,439	685,116	213,672
Purchases	1,350,155	315,542	55,581
Sales	(1,192,988)	(362,672)	(41,360)
Balance, June 30, 2011	<u>\$ 5,987,209</u>	<u>\$ 10,463,074</u>	<u>\$ 2,272,861</u>
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	<u>\$ 895,439</u>	<u>\$ 685,116</u>	<u>\$ 213,672</u>

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2011

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

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

Cash and Cash Equivalents

The carrying amount approximates fair value.

Contributions Receivable

Fair value is estimated at the present value of the future payments expected to be received.

Notes Receivable

Fair value is estimated by discounting the future cash flows using the rates at which similar notes would be written for the same remaining maturities.

Annuities and Trusts Payable

Fair values of the annuity and trust obligations are based on discounted cash flows of the estimated annuity or other payment under such obligations. The carrying amount is a reasonable estimate of fair value.

Note 14: 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.

Emporia State University Foundation, Inc.

Notes to Financial Statements

June 30, 2011

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 statement of financial position.

Current Economic Conditions

The current protracted economic decline continues to present foundations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, declines in contribution and grant revenue and constraints on liquidity. The financial statements have been prepared using values and information currently available to the Foundation. Current economic conditions have made it difficult for some donors to continue to contribute to foundations. A significant decline in contribution revenue could have an adverse impact on the Foundation's future operating results. In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable.