

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

Independent Auditor's Report and Financial Statements

June 30, 2019 and 2018



**Emporia State University Foundation, Inc.**  
**June 30, 2019 and 2018**

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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, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Emporia State University Foundation, Inc. as of June 30, 2019 and 2018, 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.

***Emphasis of Matter***

As discussed in Note 2 to the financial statements, in 2019, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

**BKD, LLP**

Kansas City, Missouri  
September 30, 2019

**Emporia State University Foundation, Inc.**  
**Statements of Financial Position**  
**June 30, 2019 and 2018**

**Assets**

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 1,265,572	\$ 1,070,218
Mortgages receivable	271,551	281,519
Investments	95,542,252	92,777,633
Contributions receivable, net of allowance; 2019 - \$356,751, 2018 - \$269,084	7,201,358	6,368,597
Beneficial interests in trusts	9,312,800	9,472,602
Property and equipment, net of accumulated depreciation; 2019 - \$1,851,478, 2018 - \$1,773,289	1,496,574	1,543,448
Other assets	194,271	153,589
Total assets	<b>\$ 115,284,378</b>	<b>\$ 111,667,606</b>

**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$ 411,282	\$ 432,155
Accrued expenses	237,703	187,489
Annuity and trust obligations	1,186,435	1,234,410
Total liabilities	1,835,420	1,854,054

**Net Assets**

Without donor restrictions	8,541,718	7,660,174
With donor restrictions	104,907,240	102,153,378
Total net assets	113,448,958	109,813,552
Total liabilities and net assets	<b>\$ 115,284,378</b>	<b>\$ 111,667,606</b>

**Emporia State University Foundation, Inc.**  
**Statement of Activities**  
**Year Ended June 30, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
Contributions	\$ 356,125	\$ 8,690,028	\$ 9,046,153
Investment return	1,217,755	4,648,405	5,866,160
Change in beneficial interests in trusts	-	(150,779)	(150,779)
Loss on annuity and trust obligations	(17,435)	(23,409)	(40,844)
Other	9,798	31,955	41,753
Net assets released from restrictions	10,442,338	(10,442,338)	-
	<u>12,008,581</u>	<u>2,753,862</u>	<u>14,762,443</u>
<b>Expenses and Losses</b>			
Program	8,801,183	-	8,801,183
Management and general	1,180,371	-	1,180,371
Fundraising	1,145,483	-	1,145,483
	<u>11,127,037</u>	<u>-</u>	<u>11,127,037</u>
<b>Change in Net Assets</b>	881,544	2,753,862	3,635,406
<b>Net Assets, Beginning of Year</b>	<u>7,660,174</u>	<u>102,153,378</u>	<u>109,813,552</u>
<b>Net Assets, End of Year</b>	<u>\$ 8,541,718</u>	<u>\$ 104,907,240</u>	<u>\$ 113,448,958</u>

**Emporia State University Foundation, Inc.**  
**Statement of Activities**  
**Year Ended June 30, 2018**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
Contributions	\$ 285,786	\$ 6,535,095	\$ 6,820,881
Investment return	870,932	4,394,152	5,265,084
Change in beneficial interests in trusts	-	328,827	328,827
Gain (loss) on annuity and trust obligations	17,614	(74,505)	(56,891)
Other	13,342	33,322	46,664
Change in donor intent	46,024	(46,024)	-
Net assets released from restrictions	7,700,270	(7,700,270)	-
	<u>8,933,968</u>	<u>3,470,597</u>	<u>12,404,565</u>
<b>Expenses and Losses</b>			
Program	6,029,921	-	6,029,921
Management and general	1,216,847	-	1,216,847
Fundraising	1,245,361	936	1,246,297
	<u>8,492,129</u>	<u>936</u>	<u>8,493,065</u>
<b>Change in Net Assets</b>	441,839	3,469,661	3,911,500
<b>Net Assets, Beginning of Year</b>	<u>7,218,335</u>	<u>98,683,717</u>	<u>105,902,052</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 7,660,174</u></u>	<u><u>\$ 102,153,378</u></u>	<u><u>\$ 109,813,552</u></u>

**Emporia State University Foundation, Inc.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2019**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising Expenses</b>	<b>Total Expenses</b>
Salaries	\$ 74	\$ 805,458	\$ 824,696	\$ 1,630,228
Scholarships	3,482,423	-	-	3,482,423
University projects	5,139,219	-	-	5,139,219
Supplies	10,951	14,113	6,239	31,303
Travel and training	414	25,324	73,539	99,277
Maintenance/contractual services	6,798	116,925	79,030	202,753
Utilities and taxes	15,602	9,563	12,962	38,127
Advertising/promotion	16,511	16,632	25,939	59,082
Insurance	11,906	17,534	-	29,440
Professional services	34,546	85,382	36,001	155,929
Printing and publication	6,497	12,159	26,760	45,416
Postage	4,341	8,910	10,629	23,880
Rent	1,866	1,724	209	3,799
Depreciation	26,372	30,597	31,557	88,526
Equipment (noncapitalized)	1,300	12,539	4,650	18,489
Dues	4,620	8,929	3,167	16,716
Fees	7,251	13,178	10,105	30,534
Bad debts	517	-	-	517
Other	29,975	1,404	-	31,379
	<u>\$ 8,801,183</u>	<u>\$ 1,180,371</u>	<u>\$ 1,145,483</u>	<u>\$ 11,127,037</u>



**Emporia State University Foundation, Inc.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2018**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising Expenses</b>	<b>Total Expenses</b>
Salaries	\$ 34,391	\$ 902,749	\$ 899,538	\$ 1,836,678
Scholarships	3,107,521	-	-	3,107,521
University projects	2,640,539	-	-	2,640,539
Fundraising events	23,663	-	-	23,663
Supplies	7,482	16,756	5,903	30,141
Travel and training	2,245	30,987	62,344	95,576
Maintenance/contractual services	5,629	96,737	127,820	230,186
Utilities and taxes	14,517	12,273	17,562	44,352
Advertising/promotion	15,495	8,721	24,614	48,830
Insurance	12,160	20,804	-	32,964
Professional services	-	53,444	34,846	88,290
Printing and publication	4,836	9,250	18,338	32,424
Postage	4,511	6,488	10,139	21,138
Rent	-	1,811	-	1,811
Depreciation	27,557	31,458	30,892	89,907
Equipment (noncapitalized)	-	3,949	4,150	8,099
Dues	4,920	8,114	5,313	18,347
Fees	2,092	11,978	4,838	18,908
Bad debts	(2,229)	-	-	(2,229)
Other	124,592	1,328	-	125,920
	<u>\$ 6,029,921</u>	<u>\$ 1,216,847</u>	<u>\$ 1,246,297</u>	<u>\$ 8,493,065</u>

**Emporia State University Foundation, Inc.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating Activities</b>		
Change in net assets	\$ 3,635,406	\$ 3,911,500
Items not requiring (providing) operating activities cash flows		
Depreciation	88,526	89,907
Net realized and unrealized losses (gains) on investments	592,751	(3,752,620)
Loss on annuity and trust obligations	40,844	56,891
Change in beneficial interests in trusts	150,779	(328,827)
Contributions and investment income received restricted for long-term investment	(1,613,169)	(2,510,202)
Changes in		
Contributions receivable	(846,296)	814,436
Beneficial interests in trusts	9,023	14,582
Other assets	(40,682)	19,587
Accounts payable and accrued expenses	33,989	241,104
	<u>2,051,171</u>	<u>(1,443,642)</u>
<b>Investing Activities</b>		
Principal payments received on mortgages receivable	9,968	8,089
Purchase of investments	(31,635,035)	(26,372,755)
Proceeds from the disposition of investments	28,277,665	25,516,202
Purchase of property and equipment	(41,652)	(12,668)
	<u>(3,389,054)</u>	<u>(861,132)</u>
<b>Financing Activities</b>		
Proceeds from contributions and investment income restricted for long-term investment	1,626,704	2,699,386
Payments on annuity and trust obligations	(93,467)	(107,047)
	<u>1,533,237</u>	<u>2,592,339</u>
<b>Increase in Cash and Cash Equivalents</b>	195,354	287,565
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,070,218</u>	<u>782,653</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,265,572</u>	<u>\$ 1,070,218</u>

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

## **Notes to Financial Statements**

**June 30, 2019 and 2018**

### **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, 2019 and 2018, cash equivalents consisted primarily of a daily repurchase agreement which is not subject to FDIC insurance limits. At June 30, 2019, the Foundation's cash accounts exceeded federally insured limits by approximately \$7,000.

#### ***Investments and Net 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, less external and direct internal investment expenses.

# Emporia State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2019 and 2018

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities with or without donor restrictions 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, 2019 and 2018.

# Emporia State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2019 and 2018

### **Net Assets**

Net assets, revenues, gains and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment. Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

### **Contributions**

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

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions 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 the Foundation 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.

# Emporia State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2019 and 2018

### ***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.

### ***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 September 30, 2019, which is the date the financial statements were available to be issued.

## **Note 2: Change in Accounting Principle**

In 2019, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

### ***Statement of Financial Position***

- The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.
- Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class.

### ***Statement of Activities***

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

# Emporia State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2019 and 2018

### Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statement of financial position.
- Amounts and purposes of governing board designations and appropriations as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.

### Note 3: Investments

#### Investments

Investments at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Cash - unsettled trades	\$ -	\$ 3,286,668
Money markets accounts	552,093	1,405,653
Certificates of deposit	256,974	254,429
Cash surrender value of life insurance	871,051	933,239
Fixed income mutual funds		
Intermediate-term bond	9,580,034	8,375,197
Other fixed income mutual funds	4,933,637	4,311,318
Equity mutual funds		
Domestic equities	18,767,891	19,049,462
International equities	28,336,242	22,091,913
Other equity mutual funds	4,403,098	4,436,070
U.S. Savings bonds	-	83,770
Hedge funds and fixed income partnerships	13,326,632	15,159,971
Real estate and real estate partnerships	5,530,946	5,304,519
Private equity and natural resources limited partnerships	8,983,654	8,085,424
	<u>\$ 95,542,252</u>	<u>\$ 92,777,633</u>

**Emporia State University Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**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, 2019 and 2018 consist of the following:

	<u>Fair Value</u>		<u>Unfunded Commitments</u>		<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>		
Hedge funds and fixed income partnerships (A)	\$ 13,326,632	\$ 15,159,971	N/A	N/A	Quarterly	95 - 100 days
Real estate partnerships (B)	4,898,726	4,643,999	N/A	N/A	Quarterly	90 days
Private equity and natural resource limited partnerships (C)	<u>8,983,654</u>	<u>8,085,424</u>	\$15,199,494	\$8,691,440	At fund discretion	N/A
Total alternative investments	<u>\$ 27,209,012</u>	<u>\$ 27,889,394</u>				

- (A) 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.
- (B) 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.
- (C) Private equity involves acquiring stakes in private companies. Private debt involves providing debt capital to private investors. 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 or loan maturity.



**Emporia State University Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 4: Contributions Receivable**

Contributions receivable at June 30, 2019 and 2018 consisted of the following unconditional promises to give discounted at a rate of 5.25 percent and 5.00 percent, respectively:

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 2,053,495	\$ 1,937,820
Due in one to five years	5,587,347	4,216,132
Due in more than five years	<u>1,229,386</u>	<u>1,663,654</u>
	8,870,228	7,817,606
Less		
Allowance for uncollectible contributions	356,751	269,084
Unamortized discount	<u>1,312,119</u>	<u>1,179,925</u>
	<u>\$ 7,201,358</u>	<u>\$ 6,368,597</u>

**Note 5: Beneficial Interests 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 \$9,312,800 and \$9,472,602, respectively, which represents the fair value of the trusts' assets at June 30, 2019 and 2018, respectively. The income from these trusts for 2019 and 2018 was \$360,470 and \$269,216, respectively.

**Note 6: Property and Equipment**

Property and equipment at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 313,263	\$ 313,263
Buildings and improvements	2,700,405	2,700,405
Furniture and equipment	<u>334,384</u>	<u>303,069</u>
	3,348,052	3,316,737
Less accumulated depreciation	<u>1,851,478</u>	<u>1,773,289</u>
	<u>\$ 1,496,574</u>	<u>\$ 1,543,448</u>

# Emporia State University Foundation, Inc.

## Notes to Financial Statements

June 30, 2019 and 2018

### 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, 2019 and 2018 of \$265,847 and \$310,414, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates of 1.8 percent to 2.8 percent.

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 \$1,177,574 and \$1,180,791 as of June 30, 2019 and 2018, respectively, and included in the investments in the Foundation's statements of financial position. The Foundation has recorded a liability at June 30, 2019 and 2018 of \$920,588 and \$923,996, 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.

**Emporia State University Foundation, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 8: Net Assets**

***Net Assets With Donor Restrictions***

Net assets with donor restrictions at June 30, 2019 and 2018 were available for the following purposes:

	<b>2019</b>	<b>2018</b>
Subject to expenditure for specific purpose		
Scholarships	\$ 1,980,487	\$ 1,315,966
Amounts available for the benefit of ESU departments and organization	7,832,790	7,555,977
Donor advised funds	1,145,712	1,174,832
Outside entities	13,139	11,984
Greatest need	267,163	154,495
Contributions receivable, the proceeds from which have been restricted by donors for		
Scholarships	1,027,373	1,780,909
Amounts available for the benefit of ESU departments and organization	6,144,479	5,451,506
Subject to the passage of time		
Beneficial interest in trusts	1,544,041	1,526,818
	19,955,184	18,972,487
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Scholarships	60,455,413	59,105,845
Amounts available for the benefit of ESU departments and organization	16,572,594	15,977,856
Greatest need	146,444	151,406
Total endowments	77,174,451	75,235,107
Not subject to spending policy or appropriation		
Beneficial interest in trusts	7,777,605	7,945,784
	84,952,056	83,180,891
Total net assets with donor restrictions	\$104,907,240	\$102,153,378

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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.

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions		
Scholarships	\$ 1,667,252	\$ 1,300,688
Amounts available for the benefit of ESU departments and organization	4,402,115	2,202,865
Donor advised funds	64,642	82,910
Greatest need	<u>28,466</u>	<u>-</u>
	<u>6,162,475</u>	<u>3,586,463</u>
Restricted-purpose spending-rate distributions and appropriations		
Scholarships	1,941,800	1,796,400
Amounts available for the benefit of ESU departments and organization	497,300	474,600
Internal management fee	<u>1,840,763</u>	<u>1,842,807</u>
	<u>4,279,863</u>	<u>4,113,807</u>
Net assets released from restrictions	<u><u>\$ 10,442,338</u></u>	<u><u>\$ 7,700,270</u></u>

**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 is subject to the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing body of the Foundation has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund,

# Emporia State University Foundation, Inc.

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unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, 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, 2019 and 2018 was:

	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board-designated endowment funds	\$ 1,941,672	\$ -	\$ 1,941,672
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	58,103,680	58,103,680
Accumulated investment gains	-	11,987,815	11,987,815
Term endowments	-	7,082,956	7,082,956
	\$ 1,941,672	\$ 77,174,451	\$ 79,116,123
Total endowment funds			
	<b>2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board-designated endowment funds	\$ 1,899,075	\$ -	\$ 1,899,075
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	56,426,069	56,426,069
Accumulated investment gains	-	11,897,907	11,897,907
Term endowments	-	6,911,131	6,911,131
	\$ 1,899,075	\$ 75,235,107	\$ 77,134,182
Total endowment funds			

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Changes in endowment net assets for the years ended June 30, 2019 and 2018 were:

	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 1,899,075	\$ 75,235,107	\$ 77,134,182
Net investment return	200,850	4,399,934	4,600,784
Addition of contributions and collections on pledges	23,125	1,614,682	1,637,807
Appropriation of endowment assets for expenditure	(66,400)	(2,439,100)	(2,505,500)
Administration and management fees	(48,578)	(1,840,763)	(1,889,341)
Other changes	(66,400)	204,591	138,191
	<u>\$ 1,941,672</u>	<u>\$ 77,174,451</u>	<u>\$ 79,116,123</u>
	<b>2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 1,912,095	\$ 72,501,038	\$ 74,413,133
Net investment return	107,376	4,169,086	4,276,462
Addition of contributions and collections on pledges	8,195	2,492,894	2,501,089
Appropriation of endowment assets for expenditure	(63,500)	(2,271,000)	(2,334,500)
Administration and management fees	(50,109)	(1,842,807)	(1,892,916)
Other changes	(14,982)	185,896	170,914
	<u>\$ 1,899,075</u>	<u>\$ 75,235,107</u>	<u>\$ 77,134,182</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. At June 30, 2019 and 2018, there were no significant funds with a fair value less than the original gift value of the fund.

# Emporia State University Foundation, Inc.

## Notes to Financial Statements

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### ***Investment and Spending Policies***

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 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 7.90 percent while assuming a +/- 14.90 percent 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 percent 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 2.55 percent and 2.75 percent for 2019 and 2018, 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, 2018 appropriation was June 30, 2017. The valuation date for the July 1, 2019 appropriation is June 30, 2018. 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 1.45 percent 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: Liquidity and Availability**

The Foundation is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Thus, certain financial assets may not be available for general expenditures within one year. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in short-term investments. Annually, the board designates any operating surplus to its liquidity reserves, which was \$3,845,396 as of June 30, 2019. There is also a quasi-endowment established by the governing board, valued at \$1,271,780 as of June 30, 2019. Although the Foundation does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary.

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Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019, comprise the following:

	<b>2019</b>
Cash and cash equivalents	\$ 1,265,572
Contributions receivable	29,507
Appropriations from the endowment in accordance with the spending policy	2,636,600
Appropriation of the internal management fee from the endowment in accordance with the spending policy	1,846,534
	\$ 5,778,213

**Note 11: Related Party Transactions**

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

During the years ended June 30, 2019 and 2018, the Foundation received funding from the University of \$35,284 and \$18,071, respectively, for personnel services. The Foundation made payments to the University for the years ended June 30, 2019 and 2018 of \$1,755,872 and \$1,911,676, respectively, which consisted of \$1,653,702 and \$1,783,889, respectively, for personnel services, and \$102,170 and \$127,787, respectively, for supplies and services.

The Foundation has outstanding pledge commitments from the board of trustees and management in the amount of \$2,540,505 and \$328,610 for the years ended June 30, 2019 and 2018, respectively.



# Emporia State University Foundation, Inc.

## Notes to Financial Statements

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### Note 12: Retirement Plans

Foundation employees participate in two separate programs as employees of the State of Kansas. Employees classified as University support staff 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.

Other eligible 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 13: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

# Emporia State University Foundation, Inc.

## Notes to Financial Statements

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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, 2019 and 2018:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2019</b>				
Investments				
Money markets accounts	\$ 552,093	\$ 552,093	\$ -	\$ -
Fixed income mutual funds				
Intermediate-term bond	9,580,034	9,580,034	-	-
Other fixed income mutual funds	4,933,637	4,933,637	-	-
Equity mutual funds				
Domestic equities	18,767,891	18,767,891	-	-
International equities	28,336,242	28,336,242	-	-
Other equity mutual funds	4,403,098	4,403,098	-	-
Real estate	632,220	-	632,220	-
Total investments	67,205,215	66,572,995	632,220	-
Beneficial interests in trusts	9,312,800	-	214,522	9,098,278
	<u>\$ 76,518,015</u>	<u>\$ 66,572,995</u>	<u>\$ 846,742</u>	<u>\$ 9,098,278</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)
<b>June 30, 2018</b>				
Investments				
Money markets accounts	\$ 1,405,653	\$ 1,405,653	\$ -	\$ -
Fixed income mutual funds				
Intermediate-term bond	8,375,197	8,375,197	-	-
Other fixed income mutual funds	4,311,318	4,311,318	-	-
Equity mutual funds				
Domestic equities	19,049,462	19,049,462	-	-
International equities	22,091,913	22,091,913	-	-
Other equity mutual funds	4,436,070	4,436,070	-	-
U.S. Savings bonds	83,770	-	83,770	-
Real estate	660,520	-	660,520	-
Total investments	<u>60,413,903</u>	<u>59,669,613</u>	<u>744,290</u>	<u>-</u>
Beneficial interests in trusts	<u>9,472,602</u>	<u>-</u>	<u>286,855</u>	<u>9,185,747</u>
	<u>\$ 69,886,505</u>	<u>\$ 59,669,613</u>	<u>\$ 1,031,145</u>	<u>\$ 9,185,747</u>

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

	<u>2019</u>	<u>2018</u>
Investments recorded at		
Fair value and included above	\$ 67,205,215	\$ 60,413,903
Assets not at fair value	1,128,025	4,474,336
Net asset value	<u>27,209,012</u>	<u>27,889,394</u>
Total investments	<u>\$ 95,542,252</u>	<u>\$ 92,777,633</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, 2019. 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 Interests 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:

	<b>Beneficial Interests in Trusts</b>
Balance, June 30, 2017	\$ 8,874,024
Unrealized appreciation on investments	311,723
Balance, June 30, 2018	9,185,747
Unrealized depreciation on investments	(87,469)
Balance, June 30, 2019	\$ 9,098,278
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, 2018	\$ 311,723
Year ended June 30, 2019	\$ (87,469)

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.

	<b>Fair Value 6/30/2019</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range (Weighted Average)</b>
Beneficial interests in trusts	\$ 9,098,278	Estimated value of the expected future cash flows	Fair value of the underlying assets as reported by the trustee	None

	<b>Fair Value 6/30/2018</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range (Weighted Average)</b>
Beneficial interests in trusts	\$ 9,185,747	Estimated value of the expected future cash flows	Fair value of the underlying assets as reported by the trustee	None

**Note 14: Significant Concentrations and Estimates**

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

***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 50 percent of all contributions receivable were pledged by two donors and 38 percent of all contributions receivable was pledged from one donor in 2019 and 2018, respectively.

Approximately 16 percent of all contributions were received from one donor during 2019.

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

## **Notes to Financial Statements**

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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*.