

Emporia State University Foundation, Inc.

Independent Auditor's Report and Financial Statements

June 30, 2021 and 2020



Emporia State University Foundation, Inc.
June 30, 2021 and 2020

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Emporia State University Foundation, Inc., which comprise the statements of financial position as of June 30, 2021 and 2020, 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
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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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Kansas City, Missouri
September 22, 2021

Emporia State University Foundation, Inc.
Statements of Financial Position
June 30, 2021 and 2020

Assets

	2021	2020
Cash and cash equivalents	\$ 252,007	\$ 1,192,943
Mortgages receivable	232,336	251,123
Investments	121,781,653	96,165,221
Contributions receivable, net of allowance; 2021 - \$216,755, 2020 - \$138,089	5,397,305	3,400,304
Beneficial interests in trusts	10,466,315	8,789,894
Property and equipment, net of accumulated depreciation; 2021 - \$1,885,618, 2020 - \$1,938,370	1,333,909	1,414,936
Other assets	115,959	102,552
Total assets	\$ 139,579,484	\$ 111,316,973

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 628,955	\$ 191,105
Accrued expenses	229,834	242,965
Notes payable	440,531	765,461
Annuity and trust obligations	1,210,948	1,149,082
Total liabilities	2,510,268	2,348,613

Net Assets

Without donor restrictions	12,628,125	8,739,295
With donor restrictions	124,441,091	100,229,065
Total net assets	137,069,216	108,968,360
Total liabilities and net assets	\$ 139,579,484	\$ 111,316,973

Emporia State University Foundation, Inc.
Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 542,227	\$ 8,985,264	\$ 9,527,491
Investment return	4,244,775	23,822,441	28,067,216
Change in beneficial interests in trusts	-	1,676,421	1,676,421
Loss on annuity and trust obligations	(3,947)	(151,902)	(155,849)
Gain on extinguishment of debt	301,800	-	301,800
Other	1,493	10,718	12,211
Net assets released from restrictions	9,974,791	(9,974,791)	-
	<u>15,061,139</u>	<u>24,368,151</u>	<u>39,429,290</u>
Expenses and Losses			
Program	8,792,310	-	8,792,310
Management and general	1,181,120	-	1,181,120
Fundraising	1,198,879	156,125	1,355,004
	<u>11,172,309</u>	<u>156,125</u>	<u>11,328,434</u>
Change in Net Assets	3,888,830	24,212,026	28,100,856
Net Assets, Beginning of Year	8,739,295	100,229,065	108,968,360
Net Assets, End of Year	\$ 12,628,125	\$ 124,441,091	\$ 137,069,216

Emporia State University Foundation, Inc.
Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 469,972	\$ 7,328,531	\$ 7,798,503
Investment return	550,444	1,031,876	1,582,320
Change in beneficial interests in trusts	-	(522,722)	(522,722)
Loss on annuity and trust obligations	(10,585)	(44,771)	(55,356)
Other	25,260	8,663	33,923
Net assets released from restrictions	9,862,876	(9,862,876)	-
	<u>10,897,967</u>	<u>(2,061,299)</u>	<u>8,836,668</u>
Expenses and Losses			
Program	8,165,855	-	8,165,855
Management and general	1,259,153	-	1,259,153
Fundraising	1,275,382	2,616,876	3,892,258
	<u>10,700,390</u>	<u>2,616,876</u>	<u>13,317,266</u>
Change in Net Assets	197,577	(4,678,175)	(4,480,598)
Net Assets, Beginning of Year	<u>8,541,718</u>	<u>104,907,240</u>	<u>113,448,958</u>
Net Assets, End of Year	<u>\$ 8,739,295</u>	<u>\$ 100,229,065</u>	<u>\$ 108,968,360</u>

Emporia State University Foundation, Inc.
Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services	Management and General	Fundraising	Total Expenses
Salaries	\$ -	\$ 887,010	\$ 992,059	\$ 1,879,069
Scholarships	3,303,960	-	-	3,303,960
University projects	5,294,410	(6,000)	-	5,288,410
Supplies	4,408	6,626	2,302	13,336
Travel and training	-	12,981	37,232	50,213
Maintenance/contractual services	5,186	109,486	22,994	137,666
Utilities and taxes	5,281	6,468	8,553	20,302
Advertising/promotion	8,152	7,320	24,830	40,302
Insurance	4,936	18,572	-	23,508
Interest expense	18,356	-	-	18,356
Professional services	-	52,020	34,860	86,880
Printing and publication	259	8,989	19,033	28,281
Postage	98	5,253	9,409	14,760
Rent	-	1,714	4,496	6,210
Depreciation	26,053	30,827	27,389	84,269
Equipment (noncapitalized)	953	15,418	5,501	21,872
Dues	-	9,628	3,420	13,048
Fees	2,157	13,968	988	17,113
Bad debts	-	-	161,938	161,938
Other	118,101	840	-	118,941
	<u>\$ 8,792,310</u>	<u>\$ 1,181,120</u>	<u>\$ 1,355,004</u>	<u>\$ 11,328,434</u>

Emporia State University Foundation, Inc.
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Management and General	Fundraising	Total Expenses
Salaries	\$ -	\$ 861,747	\$ 916,112	\$ 1,777,859
Scholarships	3,313,374	-	-	3,313,374
University projects	4,704,073	18,000	-	4,722,073
Supplies	8,662	13,116	4,391	26,169
Travel and training	902	25,683	62,464	89,049
Maintenance/contractual services	14,647	139,580	148,365	302,592
Utilities and taxes	4,802	14,230	7,732	26,764
Advertising/promotion	1,121	10,419	27,512	39,052
Insurance	8,029	23,168	-	31,197
Interest	13,559	-	-	13,559
Professional services	7,357	67,150	36,223	110,730
Printing and publication	5,543	11,606	21,202	38,351
Postage	4,683	8,380	6,393	19,456
Rent	-	1,772	105	1,877
Depreciation	26,908	30,861	30,230	87,999
Equipment (noncapitalized)	6,543	4,158	4,500	15,201
Dues	660	16,059	3,420	20,139
Fees	3,712	12,054	7,623	23,389
Bad debts	937	-	2,615,986	2,616,923
Other	40,343	1,170	-	41,513
	<u>\$ 8,165,855</u>	<u>\$ 1,259,153</u>	<u>\$ 3,892,258</u>	<u>\$ 13,317,266</u>

Emporia State University Foundation, Inc.
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ 28,100,856	\$ (4,480,598)
Items not requiring (providing) operating activities cash flows		
Depreciation	84,269	87,999
Net realized and unrealized (gains) losses on investments	(20,792,815)	3,743,782
Loss on annuity and trust obligations	155,849	55,356
Change in beneficial interests in trusts	(1,676,421)	522,722
Gain on extinguishment of debt	(301,800)	-
Provision for losses on uncollectible contributions	161,938	2,615,986
Contributions and investment income received restricted for long-term investment	(3,043,925)	(3,012,580)
Changes in		
Contributions receivable	(1,925,035)	1,278,455
Beneficial interests in trusts	-	184
Other assets	(13,407)	91,719
Accounts payable and accrued expenses	424,719	(221,656)
Net cash provided by operating activities	1,174,228	681,369
Investing Activities		
Principal payments received on mortgages receivable	18,787	20,428
Purchase of investments	(16,603,587)	(60,024,259)
Proceeds from the disposition of investments	11,779,970	55,657,508
Purchase of property and equipment	(3,242)	(6,361)
Net cash used in investing activities	(4,808,072)	(4,352,684)
Financing Activities		
Proceeds from contributions and investment income restricted for long-term investment	2,810,021	2,919,193
Payments on annuity and trust obligations	(93,983)	(85,968)
Proceeds from notes payable	-	766,800
Payments on notes payable	(23,130)	(1,339)
Net cash provided by financing activities	2,692,908	3,598,686
Decrease in Cash and Cash Equivalents	(940,936)	(72,629)
Cash and Cash Equivalents, Beginning of Year	1,192,943	1,265,572
Cash and Cash Equivalents, End of Year	\$ 252,007	\$ 1,192,943
Supplemental Cash Flows Information		
Interest paid	\$ 18,356	\$ 13,559

Emporia State University Foundation, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

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. Uninvested cash and cash equivalents included in investment accounts, including endowment accounts are not considered to be cash and cash equivalents. At June 30, 2021 and 2020, cash equivalents consisted primarily of a daily repurchase agreement that is subject to FDIC insurance limits. At June 30, 2021, the Foundation's cash accounts did not exceed federally insured limits.

Investments and Net Investment Return

The Foundation measures securities, other than investments that qualify for the equity method of accounting, 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, 2021 and 2020

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 donor restrictions and then released from restriction. 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 investment 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, 2021 and 2020.

Emporia State University Foundation, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

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

Contributions are provided to the Foundation either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restrictions</i>	
Gifts that depend on the Foundation overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restrictions</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

Emporia State University Foundation, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

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 statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions and investment income having donor stipulations which are satisfied in the period the gift is received and the investment income is earned are recorded as revenue with donor restriction and then released from restriction.

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.

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.

Paycheck Protection Program (PPP) Loan

The entity received a PPP loan established by the CARES Act and has elected to account for the funding as a loan in accordance with ASC Topic 470, *Debt*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as a gain in the financial statements in the period the debt is legally released. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to any gain recognized.

Emporia State University Foundation, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

Subsequent Events

Subsequent events have been evaluated through September 22, 2021, which is the date the financial statements were available to be issued.

Note 2: Investments

Investments at June 30 consisted of the following:

	<u>2021</u>	<u>2020</u>
Investments in marketable securities at fair value		
Money markets accounts	\$ 2,013,361	\$ 708,728
Fixed income mutual funds		
Intermediate-term bond	12,819,033	10,753,369
Other fixed income mutual funds	1,048,382	2,642,610
Equity mutual funds		
Domestic equities	25,102,231	18,314,274
International equities	34,581,335	27,687,616
Other equity mutual funds	5,466,318	4,257,311
Real estate	368,816	306,570
	<u>81,399,476</u>	<u>64,670,478</u>
Total investments at fair value		
Investments at net asset value		
Hedge funds and fixed income partnerships	15,872,603	13,418,021
Real estate partnerships	5,486,759	5,003,657
Private equity and natural resources limited partnerships	<u>18,172,337</u>	<u>12,215,777</u>
	<u>39,531,699</u>	<u>30,637,455</u>
Total investments at net asset value		
Other assets	<u>850,478</u>	<u>857,288</u>
	<u>\$ 121,781,653</u>	<u>\$ 96,165,221</u>

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2021 and 2020

Investments at Fair Value

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

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, 2021 and 2020:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2021				
Investments				
Money markets accounts	\$ 2,013,361	\$ 2,013,361	\$ -	\$ -
Fixed income mutual funds				
Intermediate-term bond	12,819,033	12,819,033	-	-
Other fixed income mutual funds	1,048,382	1,048,382	-	-
Equity mutual funds				
Domestic equities	25,102,231	25,102,231	-	-
International equities	34,581,335	34,581,335	-	-
Other equity mutual funds	5,466,318	5,466,318	-	-
Real estate	368,816	-	368,816	-
Total investments	81,399,476	81,030,660	368,816	-
Beneficial interests in trusts	10,466,315	-	255,870	10,210,445
	<u>\$ 91,865,791</u>	<u>\$ 81,030,660</u>	<u>\$ 624,686</u>	<u>\$ 10,210,445</u>

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2021 and 2020

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2020				
Investments				
Money markets accounts	\$ 708,728	\$ 708,728	\$ -	\$ -
Fixed income mutual funds				
Intermediate-term bond	10,753,369	10,753,369	-	-
Other fixed income mutual funds	2,642,610	2,642,610	-	-
Equity mutual funds				
Domestic equities	18,314,274	18,314,274	-	-
International equities	27,687,616	27,687,616	-	-
Other equity mutual funds	4,257,311	4,257,311	-	-
Real estate	306,570	-	306,570	-
Total investments	64,670,478	64,363,908	306,570	-
Beneficial interests in trusts	8,789,894	-	213,147	8,576,747
	<u>\$ 73,460,372</u>	<u>\$ 64,363,908</u>	<u>\$ 519,717</u>	<u>\$ 8,576,747</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, 2021. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Emporia State University Foundation, Inc.
Notes to Financial Statements
June 30, 2021 and 2020

Investments at Net Asset Value (NAV)

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, 2021 and 2020 consist of the following:

	Net Asset Value		Unfunded Commitments		Redemption Frequency	Redemption Notice Period
	2021	2020	2021	2020		
Hedge funds and fixed income partnerships (A)	\$ 15,872,603	\$ 13,418,021	N/A	N/A	Quarterly	95 - 100 days
Real estate partnerships (B)	5,486,759	5,003,657	N/A	N/A	Quarterly	90 days
Private equity and natural resources limited partnerships (C)	18,172,337	12,215,777	\$ 7,963,764	\$ 10,336,705	At fund discretion	N/A
Total alternative investments	\$ 39,531,699	\$ 30,637,455				

- (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
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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.

Level 3 Reconciliation

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

	Beneficial Interests in Trusts
Balance, June 30, 2019	\$ 9,098,278
Unrealized depreciation on investments	(521,531)
Balance, June 30, 2020	8,576,747
Unrealized appreciation on investments	1,633,698
Balance, June 30, 2021	\$ 10,210,445
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, 2020	\$ (521,531)
Year ended June 30, 2021	\$ 1,633,698

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

Emporia State University Foundation, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

Unobservable (Level 3) Inputs

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

	Fair Value 6/30/2021	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Beneficial interests in trusts	\$ 10,210,445	Estimated value of the expected future cash flows	Fair value of the underlying assets as reported by the trustee	None

	Fair Value 6/30/2020	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Beneficial interests in trusts	\$ 8,576,747	Estimated value of the expected future cash flows	Fair value of the underlying assets as reported by the trustee	None

Note 3: Contributions Receivable

Contributions receivable at June 30, 2021 and 2020 consisted of the following unconditional promises to give discounted at a rate of 3.25 percent:

	2021	2020
Due within one year	\$ 1,672,510	\$ 1,180,023
Due in one to five years	4,377,253	2,611,886
Due in more than five years	4,740	18,487
	<u>6,054,503</u>	<u>3,810,396</u>
Less		
Allowance for uncollectible contributions	216,755	138,089
Unamortized discount	440,443	272,003
	<u><u>\$ 5,397,305</u></u>	<u><u>\$ 3,400,304</u></u>

During the year ended June 30, 2020, a contribution receivable in the amount of \$2,615,986 was determined to be impaired and was written off as bad debt expense.

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Note 4: 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 \$10,466,315 and \$8,789,894, which represents the fair value of the trusts' assets at June 30, 2021 and 2020, respectively. The income from these trusts for 2021 and 2020 was \$385,329 and \$352,645, respectively.

Note 5: Property and Equipment

Property and equipment at June 30, 2021 and 2020 consisted of the following:

	2021	2020
Land	\$ 313,263	\$ 313,263
Buildings and improvements	2,701,625	2,700,405
Furniture and equipment	204,639	339,638
	3,219,527	3,353,306
Less accumulated depreciation	1,885,618	1,938,370
	\$ 1,333,909	\$ 1,414,936

Note 6: 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, 2021 and 2020 of \$221,066 and \$238,974, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discount rates of 1.8 percent to 2.5 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 \$1,279,128 and \$1,165,586 as of June 30, 2021 and 2020, respectively, and included in the investments in the Foundation's statements of financial position. The Foundation has recorded a liability at June 30, 2021 and 2020 of \$989,882 and \$910,108, respectively, which represents the present value of the future obligations to make distributions to

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the designated beneficiaries. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using discount rates provided by the Internal Revenue Service and applicable mortality tables.

Note 7: Note Payables

Notes payable at June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Note payable (A)	\$ -	\$ 301,800
Note payable (B)	<u>440,531</u>	<u>463,661</u>
	<u>\$ 440,531</u>	<u>\$ 765,461</u>

- (A) On March 27, 2020, the United States government enacted the *Coronavirus Aid, Relief and Economic Security Act*. In April 2020, the Foundation received a loan in the amount of \$301,800 pursuant to the Paycheck Protection Program (PPP). The Foundation received forgiveness of the PPP loan in May 2021.
- (B) Due May 2035; payable \$3,457 monthly, including interest at 4 percent through June 2025 and thereafter variable based on index rates plus 2.98 percent; secured by all pledges, accounts receivable and general intangibles.

Aggregate annual maturities of long-term debt at June 30, 2021, are:

2022	\$ 24,062
2023	25,056
2024	26,049
2025	27,167
2026	28,290
Thereafter	<u>309,907</u>
	<u>\$ 440,531</u>

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Note 8: Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2021 and 2020 were available for the following purposes:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specific purpose		
Scholarships	\$ 1,852,417	\$ 1,741,795
Amounts available for the benefit of ESU departments and organization	6,557,664	7,767,831
Donor advised funds	1,846,127	1,126,201
Outside entities	14,863	13,982
Greatest need	-	261,364
Contributions receivable, the proceeds from which have been restricted by donors for		
Scholarships	1,667,709	1,162,055
Amounts available for the benefit of ESU departments and organization	3,599,022	2,206,523
Subject to the passage of time		
Beneficial interests in trusts	<u>1,599,737</u>	<u>1,384,768</u>
	<u>17,137,539</u>	<u>15,664,519</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Scholarships	77,012,780	60,235,393
Amounts available for the benefit of ESU departments and organization	21,355,244	16,792,585
Greatest need	68,950	131,442
Total endowments	<u>98,436,974</u>	<u>77,159,420</u>
Not subject to spending policy or appropriation		
Beneficial interests in trusts	<u>8,866,578</u>	<u>7,405,126</u>
	<u>107,303,552</u>	<u>84,564,546</u>
Total net assets with donor restrictions	<u><u>\$ 124,441,091</u></u>	<u><u>\$ 100,229,065</u></u>

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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>2021</u>	<u>2020</u>
Satisfaction of purpose restrictions		
Scholarships	\$ 1,230,021	\$ 1,292,174
Amounts available for the benefit of ESU departments and organization	4,414,899	4,133,068
Donor advised funds	<u>123,811</u>	<u>48,189</u>
	<u>5,768,731</u>	<u>5,473,431</u>
Restricted-purpose spending-rate distributions and appropriations		
Scholarships	2,070,000	2,021,200
Amounts available for the benefit of ESU departments and organization	581,300	553,400
Internal management fee	<u>1,554,760</u>	<u>1,814,845</u>
	<u>4,206,060</u>	<u>4,389,445</u>
Net assets released from restrictions	<u>\$ 9,974,791</u>	<u>\$ 9,862,876</u>

Note 9: Endowment

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.

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

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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 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 composition of net assets by type of endowment fund at June 30, 2021 and 2020 was:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 2,350,845	\$ -	\$ 2,350,845
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	63,631,123	63,631,123
Accumulated investment gains	-	25,676,901	25,676,901
Term endowments	-	9,128,950	9,128,950
Total endowment funds	\$ 2,350,845	\$ 98,436,974	\$ 100,787,819
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 1,869,341	\$ -	\$ 1,869,341
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	61,138,435	61,138,435
Accumulated investment gains	-	8,578,490	8,578,490
Term endowments	-	7,442,495	7,442,495
Total endowment funds	\$ 1,869,341	\$ 77,159,420	\$ 79,028,761

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Changes in endowment net assets for the years ended June 30, 2021 and 2020 were:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,869,341	\$ 77,159,420	\$ 79,028,761
Net investment return	560,505	23,039,573	23,600,078
Addition of contributions and collections on pledges	2,621	2,380,186	2,382,807
Appropriation of endowment assets for expenditure	-	(2,651,300)	(2,651,300)
Administration and management fees	(38,639)	(1,554,760)	(1,593,399)
Other changes	(42,983)	63,855	20,872
	<u>\$ 2,350,845</u>	<u>\$ 98,436,974</u>	<u>\$ 100,787,819</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,941,672	\$ 77,174,451	\$ 79,116,123
Net investment return	(6,121)	899,445	893,324
Addition of contributions and collections on pledges	44,331	3,002,872	3,047,203
Appropriation of endowment assets for expenditure	-	(2,574,600)	(2,574,600)
Administration and management fees	(45,991)	(1,814,845)	(1,860,836)
Other changes	(64,550)	472,097	407,547
	<u>\$ 1,869,341</u>	<u>\$ 77,159,420</u>	<u>\$ 79,028,761</u>

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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 7.00 to 8.00 percent. 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 a percent of its endowment fund's market value on the valuation date factored by the prior 12 quarter rolling average market value. During the years ended June 30, 2021 and 2020, the Foundation appropriated 3.5 percent of its endowment fund for expenditure. In addition, the Foundation assesses an annual administration fee of 1.97 percent and 2.40 percent for 2021 and 2020, 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, 2020 appropriation was June 30, 2019. The valuation date for the July 1, 2021 appropriation was June 30, 2020. 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 strategy to allow its endowment to grow at an average of 2.00 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.

Underwater Endowments

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, 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.

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At June 30, 2021, there were no underwater endowments. At June 30, 2020, funds with original gift values of \$8,452,365; fair values of \$8,227,511; and deficiencies of \$224,854 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain purposes that was deemed prudent by the governing body. The Foundation has a policy that permits spending from underwater endowment funds so long as neither the individual fund or the endowment as a whole is more than 15 percent underwater, unless otherwise precluded by donor stipulations or laws and regulations.

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 \$8,272,517 and \$6,162,090 as of June 30, 2021 and 2020, respectively. There is also a quasi-endowment established by the governing board, valued at \$1,558,690 and \$1,250,566 as of June 30, 2021 and 2020, respectively. 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.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2021, comprise the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 252,007	\$ 1,192,943
Contributions receivable	130,573	31,727
Appropriations from the endowment in accordance with the spending policy	3,088,600	3,071,600
Appropriation of the internal management fee from the endowment in accordance with the spending policy	-	1,792,038
	<u>\$ 3,471,180</u>	<u>\$ 6,088,308</u>

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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, 2021 and 2020, the Foundation received funding from the University of \$128,841 and \$36,857, respectively, for personnel services. The Foundation made payments to the University for the years ended June 30, 2021 and 2020 of \$1,796,419 and \$1,781,369, respectively, which consisted of \$1,743,358 and \$1,678,016, respectively, for personnel services, and \$53,061 and \$103,353, respectively, for supplies and services.

The Foundation has outstanding pledge commitments from the board of trustees and management in the amount of \$1,463,268 and \$1,259,516 for the years ended June 30, 2021 and 2020, respectively.

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.

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Note 13: Significant Concentrations and Estimates

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

Investments

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

Contributions and Contributions Receivable

Approximately 33 percent and 16 percent of all contributions receivable were from one donor in 2021 and 2020, respectively.

Approximately 28 percent of all contributions were received from two donors in 2020.

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 4*.

Annuities and Trusts Payable

Estimates related to the valuation of annuities and trusts payable are described in *Note 6*.