

Kansas State University

Annual Financial Report
Fiscal Year Ended June 30, 2017



Kansas State University Manhattan, Kansas

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Kansas State University

Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of Kansas State University (K-State) for the year ended June 30, 2017, with comparative totals for the year ended June 30, 2016. This discussion has been prepared to assist readers in understanding the accompanying financial statements and footnotes.

K-State's financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The financial statements, related footnote disclosures, and discussion and analysis are the responsibility of university management and have been prepared in accordance with Governmental Accounting Standards Board (GASB) principles for public colleges and universities.

STATEMENT OF NET POSITION

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows, and net position of K-State at the end of the fiscal year using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Under the accrual basis of accounting, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement as a whole provides information about the adequacy of resources to meet current and future operating and capital needs.

Within the Statement of Net Position, assets and liabilities are further classified as current or non-current. Current assets are those that are highly liquid and available for immediate and unrestricted use by K-State, and current liabilities are those likely to be settled in the next 12 months.

Net Position is divided into three categories:

1. **Net investment in capital assets** consists of equity in property, plant, and equipment owned by K-State, net of accumulated depreciation and outstanding debt obligations related to those capital assets.
2. **Restricted net position** is further divided into two subcategories, non-expendable and expendable. The corpus of non-expendable restricted resources is available only for investment purposes. Expendable restricted net position resources are available for expenditure, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
3. **Unrestricted net position** is available to use for any lawful purpose of the institution. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of K-State's resources in this category have been designated for various academic and research programs and initiatives.

Total assets at June 30, 2017 were \$1.44 billion, a decrease of \$12.9 million (-0.9%). Capital assets, net of depreciation, comprised 78.8%, or \$1.14 billion of the total assets.

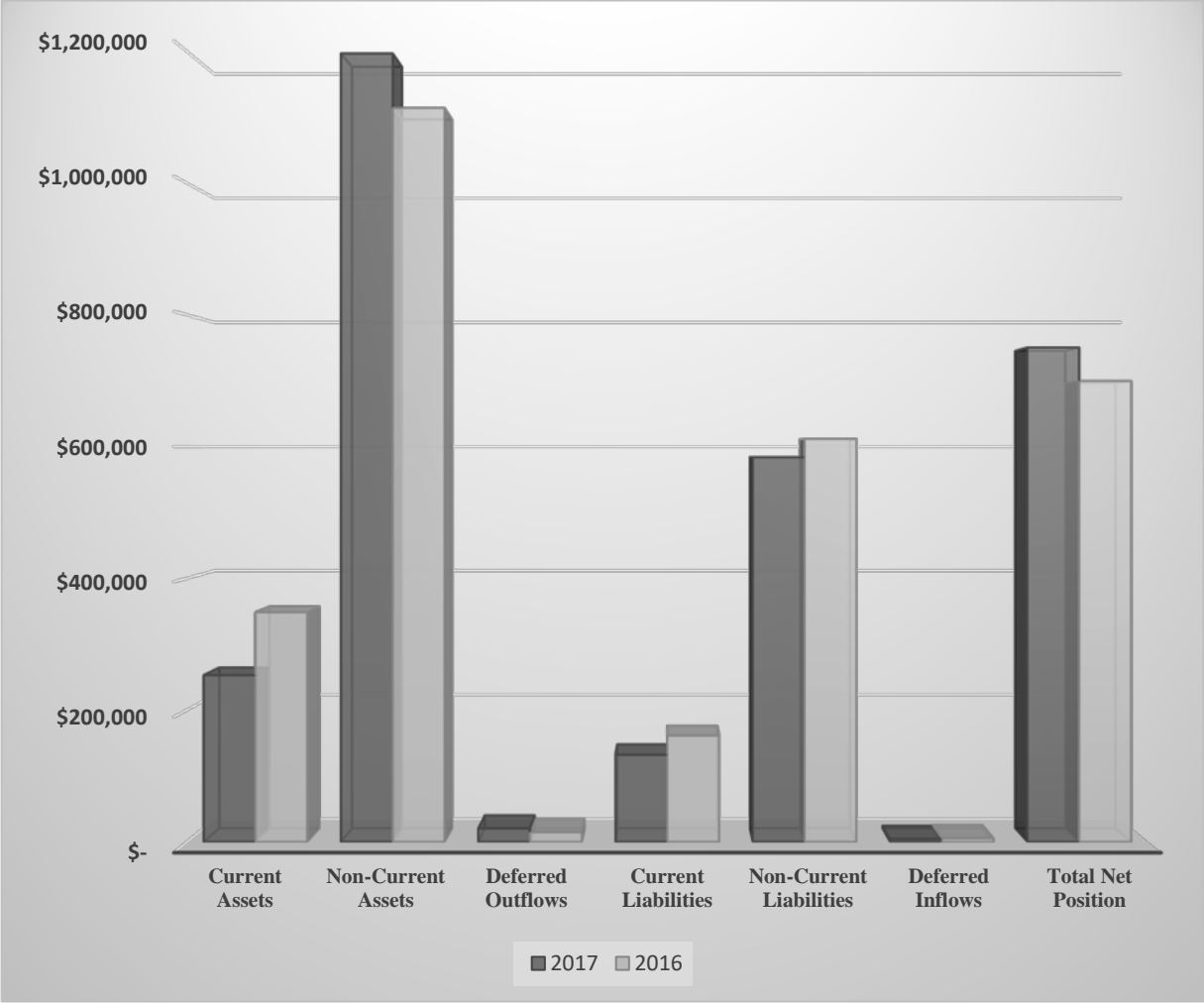
Total liabilities were \$715.6 million at June 30, 2017, a decrease of \$56.8 million (-7.4%), compared to \$772.4 million at June 30, 2016. This decrease was primarily a result of a reduction in accounts payable. Long-term liabilities comprised 81.6%, or \$583.6 million of the total liabilities.

Total deferred outflows increased \$5.7 million due to a change in the actuarially determined deferred pension expense. Total deferred inflows decreased \$1.1 million compared to 2016 due to changes in the difference between expected and actual experience. Note 12 to the financial statements includes further details regarding pension liabilities and expenses and related deferred outflows and inflows.

Total net position at June 30, 2017 was \$750.2 million, a \$50.8 million increase compared to the previous fiscal year. The university's net investment in capital assets increased \$29 million representing K-State's continued commitment to improving and maintaining the learning and working environment of the campus community. Unrestricted net position increased due to the completion of several construction projects. The breakout of net position is shown below:

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|----------------------------------|----------------------|----------------------|
| Net investment in capital assets | 618,320,673 | 589,352,513 |
| Restricted net position | 63,444,091 | 67,649,494 |
| Unrestricted net position | <u>68,465,013</u> | <u>42,395,679</u> |
| | <u>750,229,777</u> | <u>699,397,686</u> |

The composition of current and non-current assets and liabilities and net position is displayed below for fiscal year-end 2017 and 2016 (in thousands):



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents the total revenues earned and expenses incurred for operating, non-operating, and other related activities during the fiscal year. The purpose of this statement is to assess K-State's operating results.

Revenues

Operating revenues at K-State as of June 30, 2017 increased by \$37.9 million (6.5%) over the previous fiscal year. The following is a summary of the significant changes:

- Student fee revenues, after scholarship allowances, were \$233.6 million in 2017, compared to \$223.2 million in 2016. This increase is a result of a tuition increase approved by the Kansas Board of Regents for fiscal year 2017.
- Grants and contracts revenue (federal, state and local, and non-governmental) increased \$12.6 million from the previous fiscal year. This category includes funds received for sponsored research, teaching, and public service activities.
- Auxiliary enterprises include Housing, Athletics, Parking Services, Student Health, and the Center for Child Development, along with a variety of other smaller services. Auxiliary revenues increased by \$9 million in fiscal year 2017.
- Other operating revenues increased \$11.9 million.

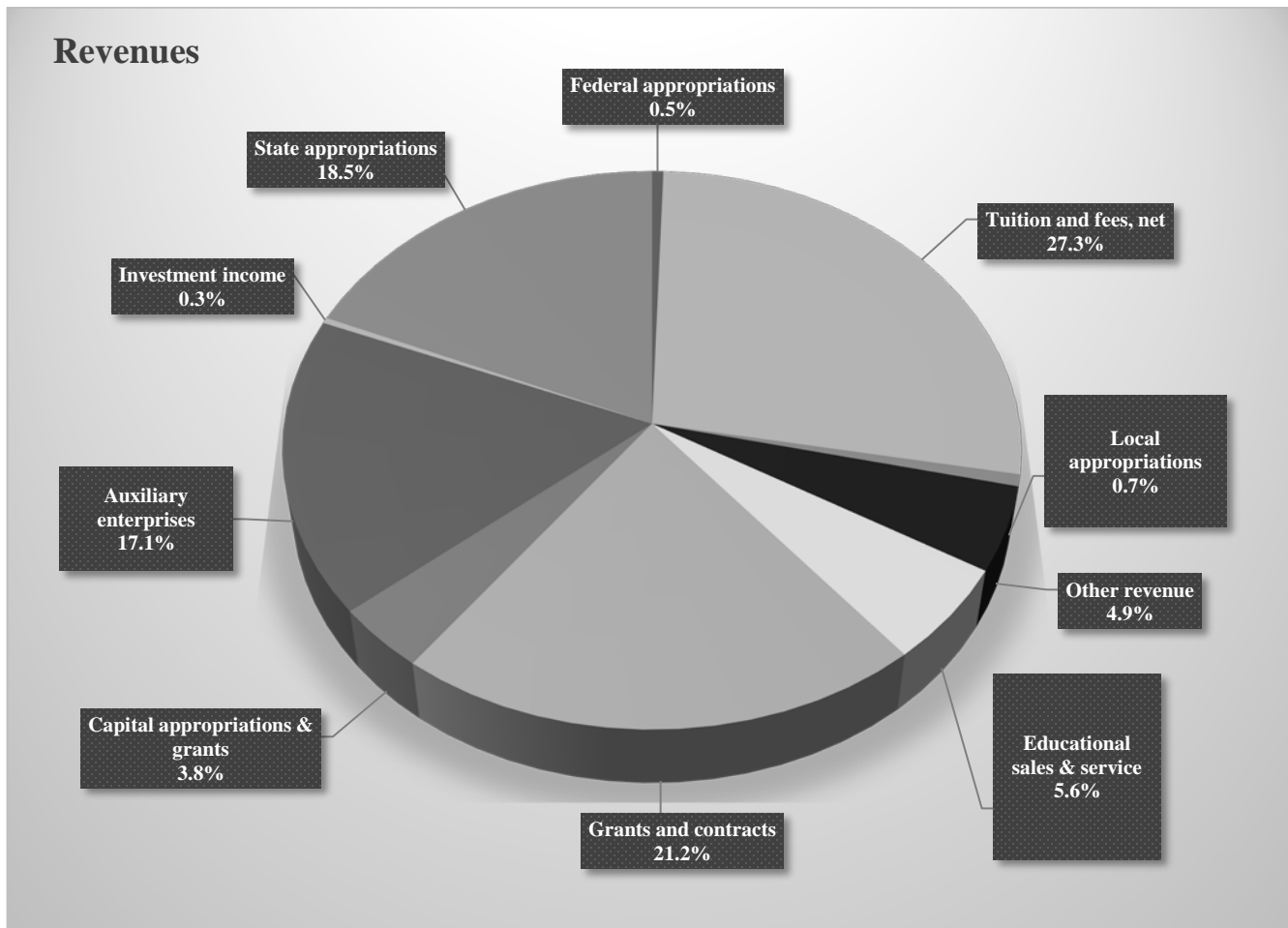
Total non-operating revenues were up \$10.6 million (5.4%) from the prior year, going from \$195.2 million to \$205.8 million in 2017. The following is a summary of the significant changes:

- State appropriations decreased from \$161 million to \$158.2 million.
- Local appropriations increased \$0.2 million based on increased sales tax collections.
- Investment income increased \$1.25 million, which is reflective of national market conditions.
- Federal grants and contracts decreased from \$19.4 million to \$18.4 million.
- Other non-operating revenue increased by \$13.1 million, in part due to one-time contribution revenue from pension bonds issued by the State of Kansas.

Other revenues included the following changes and trends:

- Capital appropriations increased from \$8.7 million to \$13.3 million.
- Capital grants and gifts decreased from \$44 million to \$15.1 million from the previous fiscal year.

In summary, total revenues increased by \$19.8 million, or 2.4%, from \$835 million to \$854.8 million. The composition of the total is displayed in the following graph:



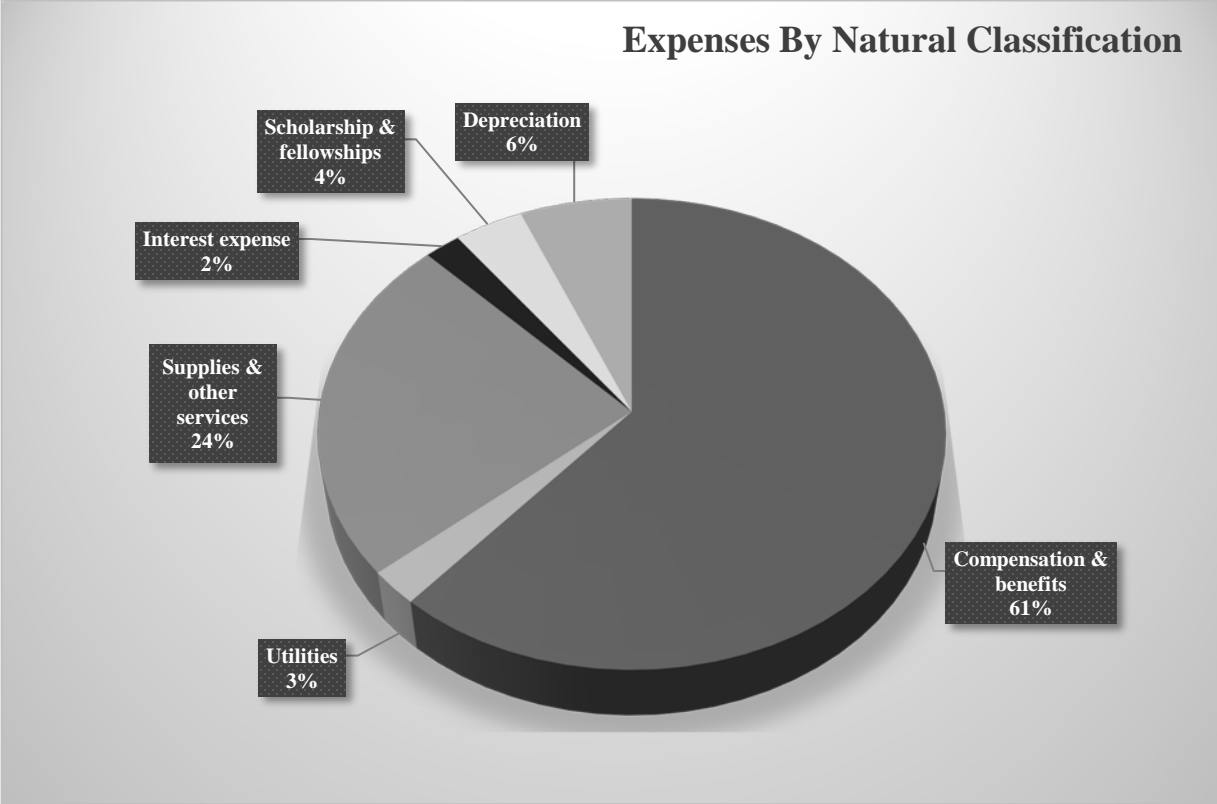
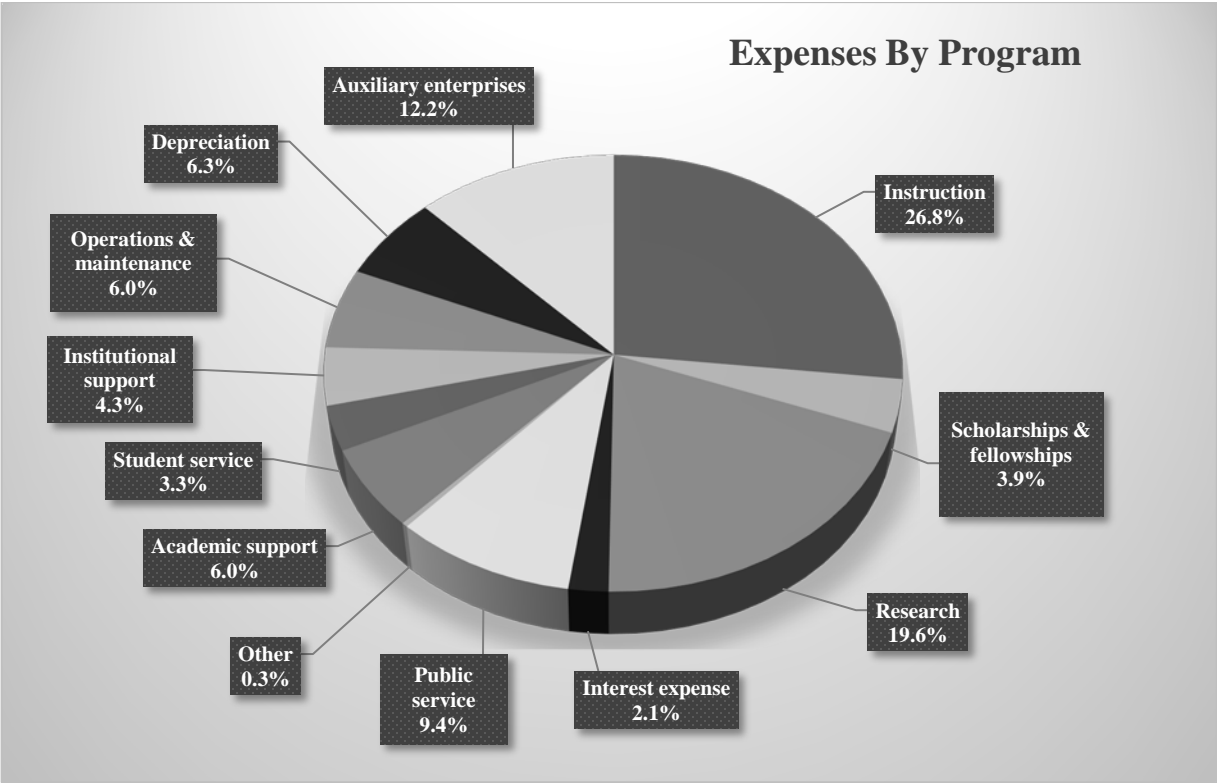
Expenses

Operating expenses were \$786.9 million for the 2017 fiscal year. This was an increase from the prior year of \$34.2 million or 4.5%. The following is a summary of the changes for 2017:

- Expenses related to K-State’s mission of instruction, research and public service increased \$17.8 million from \$430.3 million to \$448.1 million.
- Auxiliary services expenses increased \$5.1 million from \$92.9 million to \$98 million.
- Expenses related to academic support, student services, and institutional support increased \$0.3 million from \$108.6 million to \$108.9 million.
- Operations & maintenance of plant expenditures increased \$2.3 million from \$45.5 million to \$47.8 million.
- Depreciation and other expenses increased \$6.6 million from \$46.4 million to \$53.0 million.
- Scholarship & fellowship expenses increased \$2.5 million, from \$28.9 million to \$31.4 million.

Non-operating expenses, represented by interest expense and loss on disposal of assets, decreased \$5.9 million from \$23.0 million in 2016 to \$17.1 million in 2017.

The composition of total expenses, including operating and non-operating, are displayed below:



STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents cash receipts and payments during the fiscal year. Its purpose is to assess K-State's ability to generate future net cash flows and meet its obligations as they come due.

SUMMARY OF THE STATEMENT OF CASH FLOWS (in thousands of dollars):

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|--|----------------------|----------------------|
| Net cash provided (used) by: | | |
| Operating activities | \$ (152,797) | \$ (134,331) |
| Non-capital financing/appropriations | 199,096 | 189,774 |
| Capital and related financing/appropriations | (146,031) | (121,527) |
| Investing activities | <u>3,350</u> | <u>(10,165)</u> |
| Net increase in cash | (96,382) | (76,249) |
| | | |
| Beginning cash and cash equivalent balances | <u>270,451</u> | <u>346,700</u> |
| | | |
| Ending cash and cash equivalent balances | <u>\$ 174,069</u> | <u>\$ 270,451</u> |

Cash provided by operating activities includes tuition and fee and grant and contract revenues. Cash used for operating activities includes payments to employees and suppliers. Cash provided by non-capital financing/appropriations includes state and local appropriations, federal grants and contracts, and the receipts and disbursements of the federal direct student loan program and the federal Pell student aid grant program. Cash provided for capital and related financing activities represents proceeds from debt, principal and interest payments towards debt, capital appropriations and grants, and the purchase and construction of capital assets. Cash provided by investing activities includes purchases and sales of investments as well as investment income earnings and losses realized.

CAPITAL ASSETS

K-State made significant investments in capital during the 2017 fiscal year. Detailed information regarding capital asset additions, retirements & depreciation is available in Note 5 to the financial statements.

The following is a brief summary of the construction projects that were completed during the current fiscal year:

- During fiscal year 2017, approximately \$11.8 million was spent on infrastructure and deferred building maintenance projects.
- The new College of Business Administration building opened for the fall 2016 academic semester. Funding for the \$50 million project was provided by a combination of private gifts and university funds. The new building houses the College of Business Administration's faculty, staff, and students, in addition to providing an inviting place for the alumni and the business community to meet.
- The Jon Wefald Hall and Kramer Dining Center, a new resident hall and dining center project, was also opened for the fall 2016 semester. The \$80 million facility houses more than 540 students in 129,000 square feet of living space on eight floors. The dining center has 60,000 square feet of kitchen, preparation space, and dining rooms. It serves 1,850 students.
- A \$56 million expansion of the chilled water plant and distribution system was completed in June 2017. This project was part of the K-State 2025 strategic plan to build an efficient, reliable and cost-effective central utility plant to provide the necessary capacity for campus expansion.
- The \$2.8 million Equine Performance Testing Facility was completed during the spring of 2017. The new addition to the Veterinary Medicine Complex provides a soft footing riding arena, an asphalt footing area, a 140-foot-long runway for lameness examinations, holding stalls, and areas for farrier services and radiographic imaging.
- Construction on the \$31 million K-State Student Union renovation, funded by a student-approved privilege fee, was substantially completed during the summer of 2017. The project updated the external appearance, renovated retail areas, added collaborative student lounges, and enhanced dining services with a sports pub and coffee house.

Additionally, several construction projects were in progress or in the planning and design phase at year-end:

- The Seaton Hall expansion and renovation will provide 194,000 square feet of space with interdisciplinary design labs, an outdoor teaching amphitheater, a 300-seat auditorium, consolidated fabrication and product design labs, an atrium commons, and collaborative spaces. The \$75 million project began construction in September 2016 and is expected to be completed for the fall 2017 semester.
- The Pittman Freezer renovation is a \$2 million project to update K-State's mass food storage freezer to maintain safe food storage for Housing and Dining Services. The project is expected to be completed in July 2017.
- Bill Snyder Family Stadium Phases IV and V include additional video and ribbon boards and sound system improvements for an increased fan experience. A new limestone wall ties into Vanier Complex and cosmetic improvements are being made to the club level on the east side of the stadium. These projects total \$2.5 million and are expected to be completed in August 2017.
- A nearly 13,000 square foot renovation in Trotter Hall is expected to be finished by the spring 2018 semester at a cost of \$4.7 million. The project will separate the anatomy labs and student study areas to provide a more functional space. It will also include efficient features for teaching and learning of animal anatomy along with ADA-compliant restrooms, and fire safety improvements.
- A \$7.8 million project has been initiated to upgrade the electrical systems of 18 buildings on the Manhattan campus. Service upgrades of transformers and low-voltage service for buildings in phase one and planning for phase two will start in August 2017 and are expected to be complete by August 2018 and June 2019, respectively.
- The \$1.2 million Agronomy Education Center will feature climate-controlled teaching facilities and an exhibition hall to facilitate technology sharing and outreach. Construction is expected to start during the winter of the 2017-2018 academic year.
- A \$2.8 million project at the Polytechnic campus has begun and will include energy conservation and facility improvements such as lighting retrofit to LED technology, water conservation, building infiltration improvements, communicating programmable thermostats, and new boilers and chillers in Harbin and Schilling halls.

DEBT ADMINISTRATION

At June 30, 2017, K-State had \$520.2 million in debt outstanding, compared to \$544.6 million at June 30, 2016. Bonds in the amount of \$2.9 million for the Polytechnic campus energy project were issued. K-State Athletics, Inc. has an outstanding balance of \$10.65 million on a revolving line of credit used for the construction and renovation of Bill Snyder Family Stadium and Vanier Complex Phases IV and V. K-State paid \$19.8 million in principal payments related to all outstanding debt.

Standard & Poor's Ratings Services currently rates K-State "A+". Moody's Investors Service currently rates K-State "Aa2". More detailed information about the long-term liabilities is available in Notes 7, 8, 9 and 10 to the financial statements.

ECONOMIC OUTLOOK

K-State continues to make progress towards its goal to become a top 50 public research university by the year 2025. As of the end of fiscal year 2017, the endowment balance was \$506.4 million, which benefits key areas for faculty, staff and students. K-State's alumni, friends, corporate partners, students, faculty, and staff provided a total of \$152.6 million of gift activity. This is the sixth consecutive year that fundraising has topped \$100 million. These private funding efforts reflect donor and alumni confidence that K-State is delivering a quality educational experience for students and conducting vital research and service efforts for the state, nation, and world.

The 2017 Kansas Legislature recently rolled back a number of tax changes implemented in 2012 that had severely reduced revenues to the state over the past five years. Rolling back these tax measures is expected to generate approximately \$600 million annually in new revenues for the state. As a result, the legislature partially restored some state funds to the university that were eliminated under a governor's allotment issued in May 2016.

While these new revenues are anticipated to restore fiscal stability to the state, an impending Kansas Supreme Court decision on K-12 school financing leaves some uncertainty regarding funding for other parts of state government. Additionally, revenue collections for the state will be hard pressed to fund promised expenditures for human service caseloads, K-12 costs, and state employee retirement contributions. The long-term outlook of state appropriations for universities remains uncertain. As state funding has remained stagnate or fallen, pressure has increased on funding increased operating costs and growth in key academic areas with tuition dollars and extramural funding. K-State continues to grow extramural funding opportunities along with exploring new student recruitment efforts and collaborative initiatives outside of the United States. In fact, K-State will invest substantially next fiscal year in out-of-state scholarships in order to increase the ability to recruit and compete in this student population. This strategy is designed to provide a return on investment over a five-year period.

State general fund appropriations for fiscal year 2018 are currently set at \$157.3 million, which is a slight decrease from fiscal year 2017. The fiscal year 2017 appropriations, however, reflected one-time costs associated with an additional pay period within the fiscal year that occurs once every eleven years under the bi-weekly payroll system used by the state of Kansas. When those costs are removed from the 2017 appropriations, 2018 funding levels actually reflect an increase over the previous year. Included in the fiscal year 2018 appropriations is approximately \$1.0 million for the Global Food Systems Initiative, which is used to accelerate new research and teaching opportunities for faculty and staff and to add value to students' overall education experience. Also, the governor and legislature continued to support the initiative to increase the number of engineering graduates from the university by funding \$3.5 million for the sixth year of a ten-year funding strategy.

Fall student headcount for the 2016-2017 academic year dropped 1.52% from fall 2015, with projections for fall 2017 predicting slightly higher declines in enrollment. Research expenditures have seen modest increases with the trend expected to continue. Overall, the financial position of the university is stable and management will continue to monitor the state and national economic conditions as part of its financial planning.

K-State is not aware of any additional currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variables having a global effect on virtually all types of business operations.

Kansas State University
Statement of Net Position
For the Year Ended June 30, 2017

| | University Funds | | Component Units | |
|--|-----------------------|-----------------------|----------------------|----------------------|
| | 2017 | 2016 | 2017 | 2016 |
| <u>ASSETS</u> | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 150,451,798 | \$ 171,173,197 | \$ 8,131,568 | \$ 9,742,579 |
| Restricted cash and cash equivalents | 23,617,610 | 99,277,964 | 116,466 | 134,851 |
| Accounts receivable, net | 54,694,510 | 50,610,439 | 360,643 | 247,654 |
| Pledges receivable, net | 4,863,063 | 6,005,439 | - | - |
| Investments | 9,883,109 | 10,675,295 | 9,087,306 | 8,041,263 |
| Loans to students, net | 4,896,150 | 4,637,394 | - | - |
| Inventories | 3,954,812 | 5,714,498 | 51,077 | 37,575 |
| Prepaid expenses | 461,109 | 272,104 | 33,239 | 41,472 |
| Total Current Assets | <u>252,822,161</u> | <u>348,366,330</u> | <u>17,780,299</u> | <u>18,245,394</u> |
| Noncurrent Assets | | | | |
| Restricted cash and cash equivalents | - | - | - | - |
| Pledges receivable, net | 11,957,852 | 16,007,248 | - | - |
| Investments | 31,527,094 | 31,263,285 | 1,659,246 | 1,765,164 |
| Loans to students, net | 11,485,452 | 11,548,702 | - | - |
| Other assets | - | - | 115,124 | 90,125 |
| Capital assets, net | 1,141,841,002 | 1,055,311,483 | 3,220,959 | 2,484,032 |
| Total Noncurrent Assets | <u>1,196,811,400</u> | <u>1,114,130,718</u> | <u>4,995,329</u> | <u>4,339,321</u> |
| Total Assets | <u>1,449,633,561</u> | <u>1,462,497,048</u> | <u>22,775,628</u> | <u>22,584,715</u> |
| <u>DEFERRED OUTFLOWS</u> | | | | |
| Deferred amounts on refunding | 4,035,288 | 4,341,375 | - | - |
| Pension contributions | 16,651,871 | 10,614,981 | - | - |
| Total Deferred Outflows of Resources | <u>20,687,159</u> | <u>14,956,356</u> | <u>-</u> | <u>-</u> |
| <u>LIABILITIES</u> | | | | |
| Current Liabilities | | | | |
| Accounts payable and accrued liabilities | 50,940,797 | 80,260,718 | 906,870 | 800,345 |
| Due to other agencies | - | - | - | - |
| Unearned revenue | 41,030,772 | 41,044,665 | 499,922 | 589,871 |
| Accrued compensated absences | 18,889,918 | 18,499,627 | 18,329 | 12,899 |
| Capital leases payable | 1,171,747 | 1,510,443 | - | - |
| Other loans payable | 136,218 | 136,218 | 80,000 | 110,000 |
| Revenue bonds payable | 19,674,790 | 19,256,186 | - | - |
| Other liabilities | - | - | 45,740 | 35,866 |
| Deposits held in custody for others | 178,248 | 344,893 | 1,572,127 | 1,452,591 |
| Total Current Liabilities | <u>132,022,490</u> | <u>161,052,750</u> | <u>3,122,988</u> | <u>3,001,572</u> |
| Noncurrent Liabilities | | | | |
| Accrued compensated absences | 2,203,065 | 3,349,270 | - | - |
| Accrued other postemployment benefits | 77,280 | 421,134 | - | - |
| Capital leases payable | 2,065,532 | 3,657,278 | - | - |
| Other loans payable | 12,148,392 | 17,634,610 | 340,000 | 420,000 |
| Revenue bonds payable | 485,050,687 | 502,417,201 | - | - |
| Other liabilities | 995,983 | 1,200,161 | - | - |
| Net pension liability | 81,017,603 | 82,688,749 | - | - |
| Total Noncurrent Liabilities | <u>583,558,542</u> | <u>611,368,403</u> | <u>340,000</u> | <u>420,000</u> |
| Total Liabilities | <u>715,581,032</u> | <u>772,421,153</u> | <u>3,462,988</u> | <u>3,421,572</u> |
| <u>DEFERRED INFLOWS</u> | | | | |
| Pension contributions | 4,509,911 | 5,634,565 | - | - |
| Total Deferred Inflows of Resources | <u>4,509,911</u> | <u>5,634,565</u> | <u>-</u> | <u>-</u> |
| <u>NET POSITION</u> | | | | |
| Net investment in capital assets | 618,320,673 | 589,352,513 | 3,220,959 | 2,484,032 |
| Restricted for: | | | | |
| Nonexpendable | 19,115,268 | 18,759,124 | 21,645 | 21,645 |
| Expendable | | | | |
| Scholarships, research, instruction, public service, & other | 5,590,526 | 5,654,353 | 335,364 | 311,220 |
| Loans | 19,186,790 | 19,001,585 | - | - |
| Capital projects | 7,666,541 | 12,652,026 | - | - |
| Debt service | 11,884,966 | 11,582,406 | - | - |
| Unrestricted | <u>68,465,013</u> | <u>42,395,679</u> | <u>15,734,672</u> | <u>16,346,246</u> |
| Total Net Position | <u>\$ 750,229,777</u> | <u>\$ 699,397,686</u> | <u>\$ 19,312,640</u> | <u>\$ 19,163,143</u> |

Kansas State University
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

| | University Funds | | Component Units | |
|---|-----------------------|-----------------------|----------------------|----------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Operating Revenues: | | | | |
| Tuition and fees, net of scholarship allowances of \$47,168,701 | \$ 233,580,756 | \$ 223,205,107 | \$ 2,639,173 | \$ 2,684,177 |
| Federal appropriations | 4,636,190 | 10,840,954 | - | - |
| Federal grants and contracts | 95,453,874 | 89,636,641 | - | - |
| State and local grants and contracts | 11,537,508 | 7,933,368 | - | - |
| Nongovernmental grants and contracts | 55,949,531 | 52,812,089 | 135,000 | 127,000 |
| Sales and services of educational activities | 47,795,696 | 47,471,560 | 4,170,547 | 3,656,255 |
| Auxiliary enterprises | | | | |
| Housing revenues | 46,293,470 | 43,712,515 | - | - |
| Athletics revenues | 86,532,083 | 79,845,295 | - | - |
| Parking revenues | 4,174,550 | 4,100,900 | - | - |
| Student health revenues | 7,356,604 | 7,623,877 | - | - |
| Child care center revenues | 1,781,778 | 1,894,710 | - | - |
| Other auxiliary revenues | 250,026 | 233,572 | - | - |
| Interest earned on loans to students | 302,878 | 317,971 | - | - |
| Other operating revenues | 24,543,298 | 12,615,678 | 4,595,130 | 3,728,428 |
| Contributions | - | - | 11,231 | 76,157 |
| Total Operating Revenues | <u>620,188,242</u> | <u>582,244,237</u> | <u>11,551,081</u> | <u>10,272,017</u> |
| Operating Expenses: | | | | |
| Instruction | 215,343,648 | 207,403,737 | 7,209 | 10,191 |
| Research | 157,397,686 | 148,385,795 | 4,393,432 | 2,077,805 |
| Public Service | 75,365,770 | 74,486,929 | - | - |
| Academic Support | 48,150,848 | 48,602,263 | - | - |
| Student Service | 26,473,084 | 27,033,090 | 4,821,062 | 791,546 |
| Institutional Support | 34,312,598 | 32,982,473 | 2,039,693 | 5,626,310 |
| Operations & Maintenance of Plant | 47,845,320 | 45,538,197 | 111,110 | 105,584 |
| Depreciation | 50,724,859 | 46,585,984 | 293,806 | 305,468 |
| Scholarships & Fellowships | 31,415,032 | 28,903,845 | - | - |
| Auxiliary Enterprises | 97,997,268 | 92,915,452 | - | - |
| Other Expenses | 1,900,440 | (129,070) | 384,506 | 1,099,509 |
| Total Operating Expenses | <u>786,926,553</u> | <u>752,708,695</u> | <u>12,050,818</u> | <u>10,016,413</u> |
| Operating Income (Loss) | <u>(166,738,311)</u> | <u>(170,464,458)</u> | <u>(499,737)</u> | <u>255,604</u> |
| Nonoperating Revenues (Expenses) | | | | |
| State appropriations | 158,188,577 | 161,046,577 | - | - |
| Local appropriations | 5,818,800 | 5,653,000 | - | - |
| Federal grants and contracts | 18,440,965 | 19,469,596 | - | - |
| Other nonoperating revenue | 16,813,960 | 3,701,233 | - | 100,000 |
| Investment income | 2,796,850 | 1,541,978 | 649,842 | (29,349) |
| Interest expense | (16,471,716) | (16,555,002) | - | - |
| Gain/Loss on disposal of assets | (591,493) | (6,443,231) | (608) | 12,651 |
| Student fees for capital projects | 3,771,794 | 3,803,286 | - | - |
| Net Nonoperating Revenues | <u>188,767,737</u> | <u>172,217,437</u> | <u>649,234</u> | <u>83,302</u> |
| Income (Loss) Before Other Revenues, Expenses, Gains and Losses | <u>22,029,426</u> | <u>1,752,979</u> | <u>149,497</u> | <u>338,906</u> |
| Capital appropriations | 13,268,000 | 8,671,000 | - | - |
| Capital grants and gifts | 15,116,343 | 44,005,045 | - | - |
| Additions to permanent endowment | 25,261 | 261,620 | - | - |
| Other additions/deductions, net | 393,061 | (3,406,676) | - | - |
| Increase (Decrease) in Net Assets | <u>50,832,091</u> | <u>51,283,968</u> | <u>149,497</u> | <u>338,906</u> |
| Net Position | | | | |
| Net Position -- Beginning of Year, as previously reported | 699,397,686 | 648,113,718 | 19,163,143 | 18,824,237 |
| Prior Period Restatement | - | - | - | - |
| Net Position -- Beginning of Year, as restated | <u>699,397,686</u> | <u>648,113,718</u> | <u>19,163,143</u> | <u>18,824,237</u> |
| Net Position -- End of Year | <u>\$ 750,229,777</u> | <u>\$ 699,397,686</u> | <u>\$ 19,312,640</u> | <u>\$ 19,163,143</u> |

Kansas State University
Statement of Cash Flows
For the Year Ended June 30, 2017

| | University Funds | |
|---|------------------|----------------|
| | 2017 | 2016 |
| Cash Flows from Operating Activities | | |
| Tuition and fees | \$ 281,310,613 | \$ 272,056,322 |
| Endowment income | 5,191,772 | 19,905,725 |
| Sales and services of educational activities | 47,795,696 | 67,676,587 |
| Auxiliary enterprise charges | | |
| Housing | 46,834,560 | 43,920,241 |
| Other | 99,469,468 | 9,060,715 |
| Grants and contracts | 158,366,276 | 183,034,091 |
| Federal appropriations | 4,636,190 | 10,840,954 |
| Payments to suppliers | (319,371,730) | (287,803,866) |
| Compensation & benefits | (501,680,363) | (470,090,074) |
| Loans issued to students and employees | - | (4,234,903) |
| Collections on loans issued to students and employees | (195,506) | 4,012,151 |
| Other receipts (payments) | 24,846,176 | 17,290,644 |
| | (152,796,848) | (134,331,413) |
| Net Cash Flows from Operating Activities | | |
| Cash Flows from Noncapital Financing Activities | | |
| State appropriations | 158,188,577 | 161,046,577 |
| Local appropriations | 5,818,800 | 5,653,000 |
| Federal/State student aid | 18,440,965 | 19,469,596 |
| Direct lending receipts | 123,748,641 | 122,894,230 |
| Direct lending payments | (123,748,641) | (122,894,230) |
| Funds held for others | (166,645) | (96,655) |
| Nonoperating grants | 16,813,960 | 3,701,233 |
| | 199,095,657 | 189,773,751 |
| Net Cash Flows from Noncapital Financing Activities | | |
| Cash Flows from Capital and Related Financing Activities | | |
| Proceeds from capital debt | 2,883,500 | 166,524,207 |
| Proceeds from sale of capital assets | 192,167,629 | 136,704,540 |
| Capital appropriations | 13,268,000 | 8,671,000 |
| Capital grants and gifts | 15,116,343 | 44,005,045 |
| Student fees for capital projects | 3,771,794 | 3,803,286 |
| Purchases of capital assets | (330,013,500) | (380,918,399) |
| Principal paid on capital debt and leases | (27,452,248) | (18,052,028) |
| Principal paid by revenue bond defeasance | - | (61,750,000) |
| Interest paid on capital debt and leases | (16,165,629) | (17,107,544) |
| Other | 393,061 | (3,406,676) |
| | (146,031,050) | (121,526,569) |
| Net Cash Flows from Capital and Related Financing Activities | | |
| Cash Flows from Investing Activities | | |
| Investment income | 2,822,111 | 1,803,598 |
| Purchase/Redemption of investments | 528,377 | (11,968,049) |
| | 3,350,488 | (10,164,451) |
| Net Cash Flows from Investing Activities | | |
| Net change in cash and cash equivalents | (96,381,753) | (76,248,682) |
| Cash and cash equivalents -- beginning of year | 270,451,161 | 346,699,843 |
| Cash and cash equivalents -- end of year | \$ 174,069,408 | \$ 270,451,161 |

Kansas State University
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2017

| | University Funds | |
|---|-------------------------|-------------------------|
| | 2017 | 2016 |
| Reconciliation | | |
| Operating income (loss)---SRECNP | \$ (166,738,311) | \$ (170,464,458) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation expense | 50,724,859 | 46,585,984 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 1,107,701 | (6,102,916) |
| Loans to students, net | (195,506) | (222,752) |
| Inventories | 1,759,686 | (197,903) |
| Prepaid expenses | (189,005) | 855,719 |
| Accounts payable and accrued liabilities | (29,663,775) | (5,136,872) |
| Deferred revenue | (13,893) | (72,289) |
| Accrued compensated absences | (755,914) | 317,146 |
| Pension contributions | (8,832,690) | 106,928 |
| | <u>\$ (152,796,848)</u> | <u>\$ (134,331,413)</u> |
| Net cash used in operating activities---Cash Flow | <u>\$ (152,796,848)</u> | <u>\$ (134,331,413)</u> |

Kansas State University Foundation
Consolidated Statements of Financial Position
June 30, 2017 and 2016

Assets

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 40,750,425 | \$ 62,138,318 |
| Investments | 736,877,668 | 672,381,936 |
| Pledges receivable – net of allowance and discounts | 52,837,994 | 58,676,189 |
| Receivables from estates | 803,500 | 2,877,582 |
| Loans receivable | 251,711 | 199,843 |
| Property and equipment, net of accumulated depreciation; 2017 - \$1,111,083, 2016 - \$578,850 | 14,727,869 | 15,151,853 |
| Golf Course property and equipment, net of accumulated depreciation; 2017 - \$3,402,527, 2016 - \$2,863,359 | 7,950,635 | 7,683,152 |
| Cash surrender value of life insurance policies | 6,266,590 | 5,786,009 |
| Other assets and accrued investment income | <u>7,972,012</u> | <u>9,042,875</u> |
| Total assets | <u>\$ 868,438,404</u> | <u>\$ 833,937,757</u> |

Liabilities and Net Assets

Liabilities

| | | |
|--|-------------------|-------------------|
| Accounts payable, deposits and other liabilities | \$ 1,847,477 | \$ 4,190,511 |
| Accrued liabilities | 2,622,611 | 1,920,231 |
| Assets held for others | 12,291,179 | 11,515,786 |
| Unitrust and annuity liabilities | 19,845,203 | 17,860,993 |
| Long-term debt and lines of credit | <u>17,904,068</u> | <u>19,027,522</u> |
| Total liabilities | <u>54,510,538</u> | <u>54,515,043</u> |

Net Assets

| | | |
|-----------------------------------|-----------------------|-----------------------|
| Unrestricted net assets | 78,039,635 | 68,756,803 |
| Temporarily restricted net assets | 354,308,659 | 345,784,062 |
| Permanently restricted net assets | <u>381,579,572</u> | <u>364,881,849</u> |
| Total net assets | <u>813,927,866</u> | <u>779,422,714</u> |
| Total liabilities and net assets | <u>\$ 868,438,404</u> | <u>\$ 833,937,757</u> |

Kansas State University Foundation
Consolidated Statement of Activities
Year Ended June 30, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|----------------------|-----------------------------------|-----------------------------------|-----------------------|
| Revenues, Gains and Other Support | | | | |
| Contributions | \$ 2,841,289 | \$ 65,326,398 | \$ 16,890,933 | \$ 85,058,620 |
| Provision for bad debts | (1,730) | (2,662,012) | (112,319) | (2,776,061) |
| Net contribution revenue, less provision for bad debts | <u>2,839,559</u> | <u>62,664,386</u> | <u>16,778,614</u> | <u>82,282,559</u> |
| Investment income (loss), net | (3,886,931) | (384,849) | 380,236 | (3,891,544) |
| Net realized and unrealized gains (losses) on investments | 16,980,550 | 28,731,886 | (1,470,535) | 44,241,901 |
| Other support | | | | |
| Operational service charges, management fees and other | 15,416,949 | (30,346) | - | 15,386,603 |
| Receipts for grants, research, supplies, travel and other University departmental activities and funding allotments, etc. | 713,757 | 2,702,705 | - | 3,416,462 |
| Actuarial gains (losses) on unitrusts and annuity obligations | - | (618,113) | 672,868 | 54,755 |
| Net assets released from restrictions and change in donor designation | <u>84,204,532</u> | <u>(84,541,072)</u> | <u>336,540</u> | <u>-</u> |
| Total revenues, gains and other support | <u>116,268,416</u> | <u>8,524,597</u> | <u>16,697,723</u> | <u>141,490,736</u> |
| Expenses and Support | | | | |
| Direct University support | | | | |
| Scholarships and other student awards | 18,437,592 | - | - | 18,437,592 |
| Academic | 13,230,069 | - | - | 13,230,069 |
| Administrative – Faculty and student support | 43,005,731 | - | - | 43,005,731 |
| Capital improvements | 13,612,562 | - | - | 13,612,562 |
| Subtotal | <u>88,285,954</u> | <u>-</u> | <u>-</u> | <u>88,285,954</u> |
| Investment – loan interest expense and write-off | 562,458 | - | - | 562,458 |
| Foundation administration and fundraising | <u>18,137,172</u> | <u>-</u> | <u>-</u> | <u>18,137,172</u> |
| Total expenses and support | <u>106,985,584</u> | <u>-</u> | <u>-</u> | <u>106,985,584</u> |
| Change in Net Assets | 9,282,832 | 8,524,597 | 16,697,723 | 34,505,152 |
| Net Assets, Beginning of Year | <u>68,756,803</u> | <u>345,784,062</u> | <u>364,881,849</u> | <u>779,422,714</u> |
| Net Assets, End of Year | <u>\$ 78,039,635</u> | <u>\$ 354,308,659</u> | <u>\$ 381,579,572</u> | <u>\$ 813,927,866</u> |

Kansas State University Foundation
Consolidated Statement of Activities
Year Ended June 30, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|----------------------|---------------------------|---------------------------|-----------------------|
| Revenues, Gains and Other Support | | | | |
| Contributions | \$ 2,012,118 | \$ 76,215,414 | \$ 15,861,338 | \$ 94,088,870 |
| Provision for bad debts | (18) | (772,014) | (6,697) | (778,729) |
| Net contribution revenue, less provision for bad debts | <u>2,012,100</u> | <u>75,443,400</u> | <u>15,854,641</u> | <u>93,310,141</u> |
| Investment income (loss), net | (6,107,860) | (378,379) | 267,589 | (6,218,650) |
| Net realized and unrealized gains (losses) on investments | (3,654,976) | 25,295,926 | 1,338,616 | 22,979,566 |
| Other support | | | | |
| Operational service charges, management fees and other | 14,477,629 | (29,549) | - | 14,448,080 |
| Receipts for grants, research, supplies, travel and other University departmental activities and funding allotments, etc. | 708,227 | 3,209,840 | - | 3,918,067 |
| Actuarial gains (losses) on unitrusts and annuity obligations | - | 25,344 | (165,451) | (140,107) |
| Net assets released from restrictions and change in donor designation | <u>101,515,751</u> | <u>(101,533,975)</u> | <u>18,224</u> | <u>-</u> |
| Total revenues, gains and other support | <u>108,950,871</u> | <u>2,032,607</u> | <u>17,313,619</u> | <u>128,297,097</u> |
| Expenses and Support | | | | |
| Direct University support | | | | |
| Scholarships and other student awards | 15,592,757 | - | - | 15,592,757 |
| Academic | 25,756,192 | - | - | 25,756,192 |
| Administrative – Faculty and student support | 38,034,648 | - | - | 38,034,648 |
| Capital improvements | <u>27,916,906</u> | <u>-</u> | <u>-</u> | <u>27,916,906</u> |
| Subtotal | 107,300,503 | - | - | 107,300,503 |
| Investment – loan interest expense and write-off | 576,804 | - | - | 576,804 |
| Foundation administration and fundraising | <u>17,485,519</u> | <u>-</u> | <u>-</u> | <u>17,485,519</u> |
| Total expenses and support | <u>125,362,826</u> | <u>-</u> | <u>-</u> | <u>125,362,826</u> |
| Change in Net Assets | (16,411,955) | 2,032,607 | 17,313,619 | 2,934,271 |
| Net Assets, Beginning of Year | <u>85,168,758</u> | <u>343,751,455</u> | <u>347,568,230</u> | <u>776,488,443</u> |
| Net Assets, End of Year | <u>\$ 68,756,803</u> | <u>\$ 345,784,062</u> | <u>\$ 364,881,849</u> | <u>\$ 779,422,714</u> |

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Kansas State University (K-State) is a comprehensive, research, federal land grant institution, governed by the Kansas Board of Regents, and is an agency of the State of Kansas. Accordingly, K-State is included in the audited comprehensive annual financial report (CAFR) of the State of Kansas.

K-State is currently classified as a Doctoral/Research University – Extensive under the Carnegie Classification system and is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools. Undergraduate, graduate and post-graduate degrees are available from nine colleges: Agriculture, Architecture, Planning & Design, Arts & Sciences, Business Administration, Education, Engineering, Human Ecology, Veterinary Medicine, and Kansas State Polytechnic.

Other major operating units of K-State are the Agricultural Experiment Station and the statewide Cooperative Extension Service. K-State provides teaching, research, public service and related activities in the cities of Manhattan, Salina, and Olathe, Kansas. Additional sites include 18,000 acres of the Agricultural Experiment Station located in research centers at Hays, Garden City, Colby, and Parsons, and 8,600 acres in the Konza Prairie Research Natural Area, which is jointly operated by the Agricultural Experiment Station and the Division of Biology.

Financial Reporting Entity

As required by the accounting principles generally accepted in the United States of America, and as prescribed by the Governmental Accounting Standards Board (GASB), these financial statements present the consolidated financial position and financial activities of K-State and the component units listed below. These financial statements have not been audited.

Blended Component Units

The following blended component units are legally separate entities for which the university is financially accountable:

K-State Olathe Innovation Campus, Inc. is a not-for-profit corporation under the laws for the State of Kansas. Located in Olathe, Kansas, it is a place of academic research and focuses primarily on commercially viable applied research and technology discovery in animal health, plant science, food safety and security, bioenergy, and other relevant areas. It is a Type 1 Supporting Organization of Kansas State University under section 509 (a)(3) of the Internal Revenue Code.

K-State Diagnostic and Analytical Services, Inc. is a not-for-profit corporation under the laws of the State of Kansas. Its purpose is to provide support to enhance the educational, research, and service missions of Kansas State University.

K-State Athletics, Inc. is a not-for-profit entity under the laws of the State of Kansas. It provides an intercollegiate athletic program for the students, faculty, alumni, guests, and visitors of Kansas State University. The primary source of revenue is derived from athletic event ticket sales, conference distributions and game guarantees. K-State Athletics, Inc. has agreed to operate as a department of the university and be subject to the regulations and administrative policies of K-State.

Kansas State University in Italy is a not-for-profit entity established under Italian law in order to carry out education programs for students of K-State in Italy with recognition of a non-taxable entity status by Italian authorities.

Discrete Component Units

The following entities are legally separate from K-State and based on the nature and significance of their relationship to K-State are discretely presented:

The K-State Union Corporation is a not-for-profit entity under the laws of the State of Kansas, formed for the purpose of providing services and maintaining facilities for the operation of a student union at K-State.

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

Kansas State University Institute for Commercialization is a not-for-profit corporation under the laws of the State of Kansas. It was organized for educational and scientific purposes to support technology advancement, technology transfer, and education and scientific research in Kansas. The membership consists of Kansas State University and the State of Kansas Department of Commerce.

Kansas State University Veterinary Clinical Outreach, Inc. is a not-for-profit corporation under the laws of the State of Kansas. Its purpose is to provide hands-on clinical training at satellite facilities for the Veterinary Teaching Hospital at K-State.

Kansas State University Research Foundation (KSURF) is a not-for-profit corporation under the laws of the State of Kansas. The business and purposes of this corporation are to promote, encourage, and aid scientific investigation, research, and technology transfer at Kansas State University.

Kansas State University Foundation (Foundation) is a not-for-profit corporation under the laws of the State of Kansas. It was organized to promote the development and welfare of Kansas State University in its educational and scientific purposes. As a private, nonprofit organization, its financial reports are prepared in accordance with Financial Accounting Standards Board (FASB) standards, including FASB Statement Accounting Standards Codification (ASC) Topic 958, *Not-For-Profit Entities*. Due to the differences between K-State and the Foundation's reporting models, the Foundation's financial statements are not included in the consolidated statements, but instead are separately presented with no modifications. A complete copy of their audited financial statements, including notes, is available on their website <https://www.found.ksu.edu/financials/audit/index.html>.

Basis of Accounting

For financial reporting purposes, K-State is considered a special-purpose government engaged only in business-type activities. Accordingly, K-State's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Cash Equivalents

For the purposes of the Statement of Cash Flows, K-State considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments in equity securities, fixed income securities, and mutual funds are carried at fair value. Fair value is determined using quoted market prices.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the federal, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to K-State's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

Inventories are stated at cost.

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, K-State's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if the related project cost is \$100,000 or greater. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Costs incurred during construction of long-lived assets are recorded as construction-in-progress and are not depreciated until placed in service.

Depreciation is computed using the straight-line method and half-year convention over the estimated useful lives of the assets, generally 40 years for buildings, 25 years for infrastructure and land improvements, 8 years for equipment, 5 years for vehicles, 3 years for information processing and computer systems, and 5 to 40 years for componentized buildings and building improvements.

Works of art have been capitalized at cost at the date of acquisition or fair market value at the date of donation. These are considered inexhaustible and are not subject to depreciation. It is the intent of K-State that all art works and historical objects be held for the purpose of exhibition to the public to further education and research. If any items are sold from any collection, the proceeds from such disposition are intended to be set aside for future acquisitions for the collections.

Unearned Revenues

Unearned revenues consist primarily of summer school tuition not earned during the current year, amounts received from grant and contract sponsors that have not yet been earned, and athletic ticket sales.

Compensated Absences

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded as accrued compensated absences in the Statement of Net Position, and as an expense in the Statement of Revenues, Expenses and Changes in Net Position.

Deposits Held in Custody for Others

Deposits held in custody for others consist primarily of student organizations' moneys and amounts due for various study abroad programs.

Noncurrent Liabilities

Noncurrent liabilities include principal amounts of revenue bonds and loans payable, capital lease obligations with contractual maturities greater than one year, estimated amounts for accrued compensated absences, accrued other postemployment benefits, and other liabilities that will not be paid within the next fiscal year.

Deferred Outflow/Inflows of Resources

Deferred outflows and deferred inflows result from the consumption or acquisition of net position in one period that is applicable to future periods. K-State has deferred outflows related to debt defeasance, which are amortized over the remaining life of the debt refunded. K-State also has both deferred outflows and deferred inflows related to the pension plan, which are described in more detail in Note 12.

Net Position

K-State's net position is classified as follows:

Net investment in capital assets: This component represents capital assets, net of accumulated depreciation and outstanding principal debt balances related to the acquisition, construction or improvement of those assets.

Restricted net position – non-expendable: Restricted non-expendable net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted net position – expendable: Restricted expendable net position includes resources in which K-State is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

Unrestricted net position: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of K-State, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Tax Status

K-State is classified as exempt from federal income tax under Section 115(a) and under Section 501(a) of the Internal Revenue Code, as an organization described in Section 501(c)(3). Certain revenues generated from activities unrelated to K-State's exempt purpose may be subject to federal income tax under Internal Revenue Code Section 511(a)(2)(B).

Classification of Revenues

Revenues are classified as either operating or non-operating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as 1) student tuition and fees, net of scholarship discounts and allowances, 2) federal appropriations, 3) sales and services of auxiliary enterprises or educational activities, 4) most federal, state and local grants and contracts, and 5) interest on institutional student loans.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, contributions, certain federal and state grants, and other revenue sources that are defined as non-operating revenues by GASB 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, such as state appropriations and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by K-State and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs are recorded as either operating or non-operating revenues in K-State's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, a scholarship discount and allowance has been recorded.

Pensions

K-State's proportional share of the Kansas Public Employees Retirement System (KPERS) is reported in accordance with the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. For purposes of measuring the net pension liability, deferred outflows and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of KPERS and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the current year's presentation. These reclassifications had no impact on total net position as previously reported.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2017

Note 2 – Deposits and Investments

A summary of deposits and investments at June 30 is as follows:

| | 2017 | 2016 |
|---|-----------------------|-----------------------|
| Cash deposits with State Treasury | \$ 126,456,227 | \$ 228,243,066 |
| Cash deposits with financial institutions | 47,613,181 | 42,208,095 |
| Short term investments | 993,790 | 1,499,714 |
| Guaranteed investment contracts | - | - |
| Investments at K-State Foundation | 25,642,936 | 25,493,621 |
| Other investments | 14,773,477 | 14,945,245 |
| | <u>\$ 215,479,611</u> | <u>\$ 312,389,741</u> |

A reconciliation of deposits and investments to the Statement of Net Position as of June 30 is as follows:

| | 2017 | 2016 |
|--|-----------------------|-----------------------|
| Cash and cash equivalents (current) | \$ 150,451,798 | \$ 171,173,197 |
| Restricted cash and cash equivalents (current) | 23,617,610 | 99,277,964 |
| Investments (current) | 9,883,109 | 10,675,295 |
| Restricted cash and cash equivalents (non-current) | - | - |
| Investments (non-current) | 31,527,094 | 31,263,285 |
| | <u>\$ 215,479,611</u> | <u>\$ 312,389,741</u> |

Deposits

The carrying amount of cash and cash equivalents with the State Treasurer and other financial institutions at June 30, 2017 was \$174,069,408. K-State's deposits with the State Treasurer are pooled with the funds of other state agencies and, with the exception of the bond funds, placed in short-term investments in accordance with statutory limitations. All bond proceeds are invested in conjunction with specifications stated in the bond resolutions.

State law requires K-State to deposit the majority of its cash balances with the State Treasurer, who holds and invests the funds. These investments are managed by the Pooled Money Investment Board, which maintains a published investment policy. The exception to this are any funds maintained in the imprest fund, organizational safekeeping, and any funds held by external entities on behalf of K-State.

Cash balances maintained by the State Treasurer are pooled and held in a general checking account and other special purpose bank accounts. The available cash balances beyond immediate need are pooled for short-term investment purposes by the Pooled Money Investment Board and are reported at fair value, based on quoted market prices.

Deposit balances not maintained by the State Treasurer are covered by FDIC or collateralized. K-State does not have a formal deposit policy regarding custodial credit risk. However, management has evaluated the financial stability of the financial institutions involved and feels the deposit custodial credit risk is minimal.

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

Investments

Pooled Money Investment Board (PMIB): The investment policy of the PMIB is governed by state statutes. The primary objectives are to attain safety, liquidity, and yield. Allowable investments for state pooled moneys are as follows:

- Certificates of deposit in Kansas banks, which are fully collateralized.
- Direct obligations of, or obligations that are insured as to principal and interest by, the United States of America, or any agency thereof.
- Obligations and securities of United States sponsored enterprises that under federal law may be accepted as security for public funds. Moneys available for investment shall not be invested in mortgage-backed securities of such enterprises, which include the Government National Mortgage Association.
- Repurchase and reverse purchase agreements with a bank or a primary government securities dealer that reports to the Market Reports Division of the Federal Reserve Bank of New York.
- Loans as mandated by the Kansas Legislature limited to not more than the greater of 10 percent or \$140,000,000 of total investments.
- Certain Kansas agency bonds and SKILL or IMPACT act projects and bonds.
- Corporate bonds that have received one of the two highest credit ratings by a nationally recognized investment rating firm, not to exceed maturities of two years.
- High grade commercial paper that does not exceed 270 days to maturity and have received one of the two highest credit ratings by a nationally recognized investment rating firm.

Kansas Development Finance Authority (KDFA): For investments related to K-State's revenue bonds, state statutes permit cash balances to be invested as permitted by bond documents and bond covenants. KDFA manages K-State's revenue bond investments. Allowable investments include:

- U.S. Government obligations
- Obligations of government-sponsored agencies
- Federal funds, unsecured certificates of deposit, time deposits and banker's acceptances
- Deposits – fully insured by FDIC
- Certain state or municipal debt obligations
- Certain pre-refunded municipal obligations
- Commercial paper
- Investments in money market funds
- Repurchase agreements
- Stripped securities
- Investments in the Municipal Investment Pool Fund
- Investment agreements

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2017

Kansas State University Foundation (the Foundation)

The Foundation is authorized by state statute to act as the investing agent for the state agricultural university fund. Allowable investments include:

- Time deposit, open accounts for periods of not less than 30 days, or certificates of deposit for periods of not less than 90 days, in commercial banks located in Kansas.
- United States treasury bills or notes with maturities as the investing agent shall determine.
- The permanent endowment fund of the endowment association or foundation.

The Foundation is also the investing agent for K-State Athletics, Inc. The investment policies of the Foundation are governed by policies and procedures established by their Asset Management Committee, which is a committee of the Board of Directors, in collaboration with staff and consultants. The Foundation staff implements policies through: (1) the selection of investment strategies, (2) the hiring, monitoring, and changing of investment managers, and (3) re-balancing the portfolios. Investment results are monitored by the committee quarterly through manager and portfolio performance and due diligence reporting, and annually through outside auditing of the Foundation’s accounts and procedures. The specific return objectives, risk parameters, and spending policies of K-State Athletics, Inc. are adopted to be in compliance with the Foundation’s policies and procedures for endowment and investment management.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. K-State does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

PMIB minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities.

For revenue bond investments managed by K DFA, due to the tax-exempt status of the bonds, it is generally the practice of K DFA and K-State to match reserve fund interest rates to the arbitrage yield on the bonds and the term of the investments to the maturity of the bonds. For invested loan funds, K DFA generally invests to maximize the interest rate and set a term of investment based on estimated expenditures, which is generally 3-5 years.

The state agricultural university funds are invested in the Foundation’s pooled endowment fund and are subject to their investment policy.

As of June 30, 2017, K-State had investments with the following maturities:

| Investment Type | Investment Maturities | | | | |
|------------------------------------|-----------------------|---------|----------|-----------|-----------|
| | Fair Value | < 1 yr. | 1-5 yrs. | 6-10 yrs. | > 10 yrs. |
| Short Term Investments | \$ 993,790 | 993,790 | - | - | - |
| Total Short Term | 993,790 | 993,790 | - | - | - |
| Not subject to maturity dates: | | | | | |
| K-State Foundation Investment Pool | 25,642,936 | | | | |
| Other Long Term Investments | 14,773,477 | | | | |
| Grand Total | <u>\$ 41,410,203</u> | | | | |

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to K-State. K-State’s investments may have credit risk, since the underlying securities may include securities other than those that take the form of U.S. Treasuries or obligations explicitly guaranteed by the U.S. government. Certain investments have an underlying collateral agreement.

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, K-State will not be able to recover the value of the investments that are in the possession of an outside party. K-State's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the university's name, and are held by either the counterparty or the counterparty's trust department or agent.

K-State does not have a formal investment policy that addresses custodial credit risk. However, K-State's custodial credit risk is estimated to be minimal based on the expressed investment policies of PMIB, K DFA and the Foundation.

Concentration of credit risk is the risk of loss attributed to the magnitude of K-State's investment in a single issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

Information about concentrations of investments with a single issuer is not provided by the State Treasurer or PMIB and therefore K-State cannot provide this information. The financial statements of the State of Kansas provide additional information about the risk associated with the State Treasurer's and PMIB's investment portfolios.

Fair Value Measurement

GASB Statement No. 72, *Fair Value Measurement and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under GASB 72 are described as follows:

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 table presents the fair value measurements of assets and liabilities on a recurring basis recognized in the accompanying Statement of Net Position and the corresponding level within the fair value hierarchy at June 30, 2017. Information to determine the June 30, 2017 levels for investments held by the Foundation for K-State Athletics, Inc. was not available as of the date of their audit report and therefore not included in the table below.

| | June 30, 2017 | | | |
|---------------------------------|----------------------|----------------------|----------------|----------------|
| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Money market mutual funds | \$ 11,836,197 | \$ 11,836,197 | \$ - | \$ - |
| U.S. Treasury securities | 993,790 | 993,790 | - | - |
| Guaranteed investment contracts | 349,589 | 349,589 | - | - |
| External investment pools | 3,778,114 | 3,778,114 | - | - |
| | <u>\$ 16,957,690</u> | <u>\$ 16,957,690</u> | <u>\$ -</u> | <u>\$ -</u> |

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2017

Note 3 – Accounts Receivable

Accounts receivable are shown net of allowances for doubtful accounts in the accompanying Statement of Net Position.

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|---|----------------------|----------------------|
| Tuition and Fees | \$ 10,645,442 | \$ 11,395,469 |
| Auxiliary Enterprises | 338,077 | 879,167 |
| Grants and Contracts | 25,121,801 | 20,776,315 |
| Unspent state appropriations | 7,511,745 | 7,643,492 |
| Other | 11,789,768 | 10,650,990 |
| | <u>\$ 55,406,833</u> | <u>\$ 51,345,433</u> |
| Less: Allowance for uncollectible amounts | 712,323 | 734,994 |
| Net Accounts Receivable | <u>\$ 54,694,510</u> | <u>\$ 50,610,439</u> |

Note 4 – Loans to Students

Student loans made through the Federal Perkins Loan Program and the Health Professions Student Loan Program comprise substantially all of the loans to students at June 30, 2017 and 2016. The programs provide for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100%, if the participant complies with certain provisions.

As K-State determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. K-State has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2017 and 2016, the allowance for uncollectible loans was estimated to be \$2,314,086 and \$2,170,501, respectively.

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2017 is summarized as follows:

| | Beginning <u>Balance</u> | <u>Additions</u> | <u>Retirements</u> | Ending <u>Balance</u> |
|--|-----------------------------|--------------------|--------------------|--------------------------|
| Land and Improvements | \$ 13,429,331 | \$ 1,778 | \$ - | \$ 13,431,109 |
| Art Collections | 2,881,510 | 96,950 | - | 2,978,460 |
| Construction in Progress | 202,612,135 | 135,246,549 | 174,011,300 | 163,847,384 |
| Buildings & Improvements | 1,019,183,174 | 172,840,387 | 235,305 | 1,191,788,256 |
| Land Improvements | 28,670,201 | 529,911 | 52,440 | 29,147,672 |
| Infrastructure | 52,443,978 | 2,360,802 | - | 54,804,780 |
| Intangibles | 21,574,588 | 383,006 | 2,299,376 | 19,658,218 |
| Equipment and Furnishings | 193,635,740 | 8,309,331 | 3,650,945 | 198,294,126 |
| Vehicles | 23,061,415 | 2,919,067 | 620,748 | 25,359,734 |
| IT Info Processing Equipment | 4,407,218 | 913,043 | 8,121 | 5,312,140 |
| Total Capital Assets | 1,561,899,290 | 323,600,824 | 180,878,235 | 1,704,621,879 |
| Less: Accumulated Depreciation | | | | |
| Building & Improvements | 370,664,578 | 28,633,522 | 218,822 | 399,079,278 |
| Land Improvements | 15,501,290 | 886,973 | 52,440 | 16,335,823 |
| Infrastructure | 12,375,686 | 2,068,598 | (1,165) | 14,445,449 |
| Intangibles | 8,656,591 | 2,039,419 | 2,258,422 | 8,437,588 |
| Equipment and Furnishings | 144,040,876 | 11,282,957 | 3,141,507 | 152,182,326 |
| Vehicles | 18,143,933 | 1,845,258 | 602,631 | 19,386,560 |
| IT Info Processing Equipment | 2,701,636 | 1,179,467 | 8,121 | 3,872,982 |
| Total Depreciation | \$ 572,084,590 | 47,936,194 | 6,280,778 | 613,740,006 |
| Capital Assets, net | \$ 989,814,700 | 275,664,630 | 174,597,457 | 1,090,881,873 |
| K-State Olathe Innovation Campus, Inc. | | | | 30,293,780 |
| K-State Diagnostic and Analytical Services, Inc. | | | | 919,559 |
| K-State Athletics, Inc. | | | | 19,745,790 |
| | | | | <u>\$ 1,141,841,002</u> |

Kansas State University

Notes to Financial Statements For the Year Ended June 30, 2017

Capital asset activity for the year ended June 30, 2016 is summarized as follows:

| | Beginning <u>Balance</u> | <u>Additions</u> | <u>Retirements</u> | Ending <u>Balance</u> |
|--|-----------------------------|--------------------|--------------------|--------------------------|
| Land and Improvements | \$ 12,257,553 | \$ 1,171,778 | \$ - | \$ 13,429,331 |
| Art Collections | 2,784,510 | 97,000 | - | 2,881,510 |
| Construction in Progress | 89,721,767 | 190,127,378 | 77,237,010 | 202,612,135 |
| Buildings & Improvements | 870,173,552 | 149,140,196 | 130,574 | 1,019,183,174 |
| Land Improvements | 28,565,276 | 104,925 | - | 28,670,201 |
| Infrastructure | 49,796,192 | 2,686,219 | 38,433 | 52,443,978 |
| Equipment and Furnishings | 22,060,594 | 8,940,924 | 9,426,930 | 21,574,588 |
| Vehicles | 189,073,054 | 9,923,143 | 5,360,457 | 193,635,740 |
| IT Info Processing Equipment | 22,475,206 | 2,242,837 | 1,656,628 | 23,061,415 |
| | 3,523,980 | 883,238 | - | 4,407,218 |
| Total Capital Assets | 1,290,431,684 | 365,317,638 | 93,850,032 | 1,561,899,290 |
| Less: Accumulated Depreciation | | | | |
| Building & Improvements | 346,457,730 | 24,302,680 | 95,832 | 370,664,578 |
| Land Improvements | 14,606,440 | 894,850 | - | 15,501,290 |
| Infrastructure | 10,444,990 | 1,969,129 | 38,433 | 12,375,686 |
| Intangibles | 10,583,351 | 2,074,808 | 4,001,568 | 8,656,591 |
| Equipment and Furnishings | 137,233,690 | 11,245,302 | 4,438,116 | 144,040,876 |
| Vehicles | 18,025,004 | 1,714,770 | 1,595,841 | 18,143,933 |
| IT Info Processing Equipment | 1,548,669 | 1,152,967 | - | 2,701,636 |
| Total Depreciation | \$ 538,899,874 | 43,354,506 | 10,169,790 | 572,084,590 |
| Capital Assets, net | \$ 751,531,810 | 321,963,132 | 83,680,242 | 989,814,700 |
| K-State Olathe Innovation Campus, Inc. | | | | 30,926,628 |
| K-State Italy | | | | 95 |
| K-State Diagnostic and Analytical Services, Inc. | | | | 578,167 |
| K-State Athletics, Inc. | | | | 33,991,893 |
| | | | | \$ 1,055,311,483 |

K-State has elected not to capitalize its library book collections. These collections adhere to K-State's policy to (a) maintain them for public exhibition, education, or research; (b) protect, keep encumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at the time of purchase rather than be capitalized.

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2017

Note 6 – Unearned Revenue

Unearned revenues consist primarily of summer session tuition and fees, advance collections on grants and contracts, and athletic ticket sales. The breakdown of unearned revenues is as follows:

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|----------------------------|----------------------|----------------------|
| Tuition and fees | \$ 8,683,686 | \$ 8,849,886 |
| Grants and contracts | 19,732,964 | 19,962,115 |
| Athletic tickets and other | <u>12,614,122</u> | <u>12,232,664</u> |
| | <u>\$ 41,030,772</u> | <u>\$ 41,044,665</u> |

Note 7 – Changes in Non-Current Liabilities

Liability activity for the year ended June 30, 2017 consists of the following:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion | Non-Current Portion |
|---------------------------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|------------------------|
| Accrued compensated absences | \$ 21,848,897 | \$ 21,092,983 | \$ 21,848,897 | \$ 21,092,983 | \$ 16,661,532 | \$ 4,431,451 |
| Accrued other postemployment benefits | 421,134 | - | 343,854 | 77,280 | - | 77,280 |
| Capital leases payable | 5,167,721 | - | 1,930,442 | 3,237,279 | 1,171,747 | 2,065,532 |
| Other loans payable | 17,770,828 | - | 5,486,218 | 12,284,610 | 136,218 | 12,148,392 |
| Revenue bonds payable | 521,673,388 | 2,883,500 | 19,831,411 | 504,725,477 | 19,674,790 | 485,050,687 |
| Other liabilities | 1,200,161 | - | 204,178 | 995,983 | - | 995,983 |
| Net pension liability | 82,688,749 | - | 1,671,146 | 81,017,603 | - | 81,017,603 |
| Total Liabilities | <u>\$ 650,770,878</u> | <u>\$ 23,976,483</u> | <u>\$ 51,316,146</u> | <u>\$ 623,431,215</u> | <u>\$ 37,644,287</u> | <u>\$ 585,786,928</u> |

Liability activity for the year ended June 30, 2016 consists of the following:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion | Non-Current Portion |
|---------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|------------------------|
| Accrued compensated absences | \$ 21,531,751 | \$ 21,848,897 | \$ 21,531,751 | \$ 21,848,897 | \$ 18,499,627 | \$ 3,349,270 |
| Accrued other postemployment benefits | 20,555,000 | - | 20,133,866 | 421,134 | - | 421,134 |
| Capital leases payable | 2,399,631 | 4,331,610 | 1,563,520 | 5,167,721 | 1,510,443 | 3,657,278 |
| Other loans payable | 1,907,046 | 16,000,000 | 136,218 | 17,770,828 | 136,218 | 17,634,610 |
| Revenue bonds payable | 449,399,608 | 150,370,207 | 78,096,427 | 521,673,388 | 19,256,186 | 502,417,202 |
| Other liabilities | 1,052,024 | 154,000 | 5,863 | 1,200,161 | - | 1,200,161 |
| Net pension liability | 71,947,881 | 10,740,868 | - | 82,688,749 | - | 82,688,749 |
| Total Liabilities | <u>\$ 568,792,941</u> | <u>\$ 203,445,582</u> | <u>\$ 121,467,645</u> | <u>\$ 650,770,878</u> | <u>\$ 39,402,474</u> | <u>\$ 611,368,404</u> |

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2017

Note 8 – Revenue Bonds Outstanding

Revenue bonds payable consisted of the following at June 30, 2017:

| | Principal Outstanding <u>6/30/17</u> | Principal Outstanding <u>6/30/16</u> |
|--|--|--|
| <p>Kansas Development Finance Authority Revenue Bonds – Series 2017B (Kansas State University Energy Conservation Project – Salina Campus) issued on February 15, 2017 in the original amount of \$2,883,500. Due in annual installments with the final maturity on 1/15/2032. Interest of 2.52% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues.</p> | \$ 2,883,500 | - |
| <p>Kansas Development Finance Authority Revenue Bonds – Series 2016D (The K-State Athletics, Inc. of Kansas State University 2011A-1 Refunding Project) issued on April 5, 2016 in the original amount of \$15,615,000. Due in annual installments with final maturity on 7/1/31. Interest ranging from 2.4% to 5% payable semi-annually, collateralized by the pledge of revenues of the corporation.</p> | \$ 14,750,000 | \$ 15,615,000 |
| <p>Kansas Development Finance Authority Revenue Bonds – Series 2016D (The K-State Athletics, Inc. of Kansas State University 2012B-1 Refunding Project) issued on 4/5/12016 in the original amount of \$32,495,000. Due in annual installments with final maturity on 7/1/32. Interest ranging from 2.4% to 5% payable semi-annually, collateralized by the pledge of revenues of the corporation.</p> | \$ 32,080,000 | \$ 32,495,000 |
| <p>Kansas Development Finance Authority Revenue Bonds – Series 2016A (Kansas State University Student Union Project) issued on January 7, 2016 in the original amount of \$24,275,000. Due in annual installments with final maturity on 3/1/36. Interest ranging from 2.0% to 4.0% payable semi-annually, collateralized by a pledge of the K-State’s unrestricted revenues.</p> | \$ 23,445,000 | \$ 24,275,000 |
| <p>Kansas Development Finance Authority Revenue Bonds – Series 2016A (Kansas State University Seaton Hall Project) issued on January 7, 2016 in the original amount of \$59,000,000. Due in annual installments with final maturity on 3/1/2040. Interest ranging from 2.0% to 4.0% payable semi-annually, collateralized by a pledge of the K-State’s unrestricted revenues.</p> | \$ 57,395,000 | \$ 59,000,000 |
| <p>Kansas Development Finance Authority Revenue Bonds – Series 2016A (Kansas State University 2007H Parking Refunding Project) issued on January 7, 2016 in the original amount of \$14,540,000. Due in annual installments with final maturity on 3/1/36. Interest ranging from 2.0% to 4.0% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues.</p> | \$14,045,000 | \$14,540,000 |
| <p>Kansas Development Finance Authority Revenue Bonds – Series 2015B (Kansas State University Chill Plant Project) issued on April 30, 2015 in the original amount of \$53,650,000. Due in annual installments with final maturity on 5/1/35. Interest ranging from 3.0% to 5.0% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues.</p> | \$ 50,185,000 | \$ 51,965,000 |

Kansas State University

Notes to Financial Statements For the Year Ended June 30, 2017

| | Principal Outstanding <u>6/30/17</u> | Principal Outstanding <u>6/30/16</u> |
|--|--|--|
| <p>Kansas Development Finance Authority Revenue Bonds – Series 2015B (Kansas State University 2005A Housing Refunding Project) issued on April 30, 2015 in the original amount of \$800,000. Due in annual installments with final maturity on 5/1/34. Interest ranging from 3.0% to 5.0% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues.</p> | \$ 740,000 | \$ 770,000 |
| <p>Kansas Development Finance Authority Revenue Bonds – Series 2015B (Kansas State University 2007A Housing Refunding Project) issued on April 30, 2015 in the original amount of \$7,415,000. Due in annual installments with final maturity on 5/1/37. Interest ranging from 3.0% to 5.0% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues.</p> | \$ 6,735,000 | \$ 6,745,000 |
| <p>Kansas Development Finance Authority Revenue Bonds – Series 2014D-1 (Kansas State University College of Engineering Project) issued on May 1, 2014 in the original amount of \$18,615,000. Due in annual installments with final maturity on 4/1/29. Interest ranging from 3.0% to 5.0% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues and KSU Kan-Grow revenues.</p> | \$ 15,730,000 | \$ 16,690,000 |
| <p>Kansas Development Finance Authority Revenue Bonds – Series 2014D-2 (Kansas State University Housing Projects) issued on May 1, 2014 in the original amount of \$114,935,000. Due in annual installments with final maturity on 4/1/44. Interest ranging from 3.0% to 5.0% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues.</p> | \$ 110,480,000 | \$ 113,575,000 |
| <p>Kansas Development Finance Authority Revenue Bonds – Series 2012F (Kansas State University Energy Conservation Project) issued on November 1, 2012 in the original amount of \$17,205,000. Due in annual installments with final maturity on 5/1/33. Interest ranging from 2.0% to 5.0% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues.</p> | \$ 14,645,000 | \$ 15,310,000 |
| <p>Kansas Development Finance Authority Refunding Revenue Bonds-Series 2012H (Kansas State University Project – Scientific R&D Facilities) issued on April 19, 2012 in the original amount of \$23,510,000. Due in annual installments with final maturity on 8/1/32. Interest ranging from 2.0% to 5.0% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues.</p> | \$22,850,000 | \$22,940,000 |
| <p>Kansas Development Finance Authority Refunding Revenue Bonds-Series 2012H (Kansas State University Project – Energy Conservation) issued on April 19, 2012 in the original amount of \$12,460,000. Due in annual installments with final maturity on 8/1/23. Interest ranging from 2.0% to 5.0% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues.</p> | \$ 8,940,000 | \$ 10,125,000 |

Kansas State University

Notes to Financial Statements For the Year Ended June 30, 2017

| | Principal Outstanding <u>6/30/17</u> | Principal Outstanding <u>6/30/16</u> |
|---|--|--|
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2012B-2 (K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2012 in the original amount of \$23,640,000. Due in annual installments with final maturity on 7/1/25. Interest ranging from 1.088% to 4.233% payable annually, collateralized by the pledge of revenues of the corporation.</p> | \$ 20,880,000 | \$ 21,920,000 |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2011G (Kansas State University Project – Landfill) issued on November 3, 2011 in the original amount of \$3,840,000. Due in annual installments with final maturity on 4/1/41. Interest ranging from 0.50% to 4.125% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues.</p> | \$ 3,230,000 | \$ 3,320,000 |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2011G (Kansas State University Project – Manhattan Housing Jardine) issued on November 3, 2011 in the original amount of \$12,460,000. Due in annual installments with final maturity on 4/1/41. Interest ranging from 0.50% to 4.125% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues.</p> | \$ 10,510,000 | \$ 10,805,000 |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2010U-1 (The Kansas Board of Regents – Kansas State University Qualified Energy Conservation Project) issued on December 1, 2010 in the original amount of \$17,815,000. Due in annual installments with final maturity on 5/1/29. Interest ranging from 1.8% to 5.45% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues.</p> | \$ 12,115,000 | \$ 13,255,000 |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2010U-2 (The Kansas Board of Regents – Kansas State University Project – Energy Conservation) issued on December 1, 2010 in the original amount of \$2,345,000. Due in annual installments with final maturity on 6/30/29. Interest ranging from 2.0% to 4.375% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues.</p> | \$ 2,345,000 | \$ 2,345,000 |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2010U-2 (The Kansas Board of Regents – Kansas State University Project – Union Refunding) issued on December 1, 2010 in the original amount of \$4,365,000. Due in annual installments with final maturity on 5/1/18. Interest ranging from 2.0% to 3.0% payable semi-annually, collateralized by a pledge of K-State’s unrestricted revenues.</p> | \$ 605,000 | \$ 1,190,000 |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2010G-1 (The Kansas Board of Regents – Kansas State University Student Recreation Complex Expansion Project) and Taxable Revenue Bonds-Series 2010G-2 (Kansas Board of Regents – Kansas State University Student Recreation Complex Expansion Project) (Build America Bonds – Direct Payment to Issuer) issued on June 29, 2010 in the original amount of \$21,565,000. Due in annual installments with final maturity on 10/1/39. Interest ranging from 2.0% to 6.6% payable semi-annually, collateralized by a pledge of student fees.</p> | \$ 19,525,000 | \$ 20,050,000 |

Kansas State University

Notes to Financial Statements For the Year Ended June 30, 2017

| | Principal Outstanding <u>6/30/17</u> | Principal Outstanding <u>6/30/16</u> |
|---|--|--|
| <p>Kansas Development Finance Authority Sales Tax Revenue Bonds-Series 2009L-1 & L-2 (K-State – Olathe Innovation Campus, Inc. Project) issued on September 10, 2009 in the original amount of \$30,500,000. Due in annual installments with final maturity on 9/1/39. Interest ranging from 1.9% to 6.0% payable semi-annually, collateralized by a pledge of sales tax revenue.</p> | \$ 27,210,000 | \$ 27,805,000 |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2009K-1 & K-2 (The Kansas Board of Regents – Kansas State University Child Care Facility Project) issued on July 29, 2009 in the original amount of \$6,140,000. Due in annual installments with final maturity on 11/1/39. Interest ranging from 2.625% to 5.625% payable semi-annually, collateralized by a pledge of user fees.</p> | \$ 5,540,000 | \$ 5,670,000 |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2008D (The Kansas Board of Regents – Kansas State University Student Life Center Project, Salina Campus) issued on June 15, 2008 in the original amount of \$1,600,000. Due in one installment from the Trust Estate 5/1/38. Interest at 5.10% payable semi-annually, collateralized by a pledge of student fees.</p> | \$ 1,600,000 | \$ 1,600,000 |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2005D (The Kansas Board of Regents – Kansas State University Research and Development Facilities Projects) issued on May 1, 2005 in the original amount of \$20,980,000. Due in annual installments with final maturity on 10/1/21. Interest ranging from 3.90% to 5.15% payable semi-annually, collateralized by a pledge of State appropriations and various university revenue funds.</p> | \$ 6,630,000 | \$ 7,780,000 |
| <p>Kansas Development Finance Authority Revenue Bonds-Series 2002E (The K-State Athletics, Inc. of Kansas State University Project) issued Capital Appreciation Bonds on March 1, 2002 in the original amount of \$3,495,889.40. Due in annual installments with final maturity on 7/1/19. Interest ranging from 5.0% to 5.4% payable semi-annually, collateralized by the pledge of revenues of the corporation.</p> | \$ 4,280,000 | \$ 5,805,000 |

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

Note 9 – Revenue Bonds Maturity Schedule

Future debt service requirements for all bonds outstanding at June 30, 2017 are as follows:

| <u>Year Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|-----------------------|-----------------------|-----------------------|
| 2018 | \$ 19,565,000 | \$ 19,025,524 | \$ 38,590,524 |
| 2019 | 19,799,000 | 18,327,715 | 38,126,715 |
| 2020 | 20,548,500 | 17,538,126 | 38,086,626 |
| 2021 | 21,418,000 | 16,632,204 | 38,050,204 |
| 2022 | 22,242,500 | 15,706,713 | 37,949,213 |
| 2023-2027 | 119,152,500 | 63,892,797 | 183,045,297 |
| 2028-2032 | 130,093,000 | 40,269,263 | 170,362,263 |
| 2033-2037 | 89,055,000 | 18,565,525 | 107,620,525 |
| 2038-2042 | 39,780,000 | 5,347,306 | 45,127,306 |
| 2043-2044 | <u>7,720,000</u> | <u>466,200</u> | <u>8,186,200</u> |
| Total | <u>\$ 489,373,500</u> | <u>\$ 215,771,373</u> | <u>\$ 705,144,873</u> |

In prior years, K-State defeased certain revenue bonds payable by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the defeased bonds and the related trust balances are not reflected the financial statements.

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

Note 10 – Loan and Lease Obligations

| <u>Capital Leases Payable</u> | Balance Outstanding <u>6/30/17</u> |
|---|--|
| <p>In December 2002, K-State and the KSU Foundation entered into a 15-year capital lease agreement for a building located at 5980 Corporate Drive in Manhattan, KS in the amount of \$825,000. In January 2008, the lease was increased by \$210,974 to account for improvements made to the property. In January 2013, the lease was increased by an additional \$154,623. Annual lease payments due July 31 are \$35,414.</p> | \$35,414 |
| <p>In July 2005, K-State and National City Commercial Capital Corporation entered into a 19-year financing agreement for the purpose of funding steam pipe replacement in the amount of \$873,755. Quarterly principal and interest payments are due starting September 29, 2005 at an interest rate of 1.0475%.</p> | \$522,937 |
| <p>In December 2009, K-State and Bank of America, N.A. entered into a 17-year financing agreement for the purpose of funding energy conservation measures. Quarterly principal and interest payments are due starting April 15, 2011 at an interest rate of 4.956%.</p> | \$215,880 |
| <p>In October 2015, K-State and KSU Real Estate Fund, LLC entered into a 2-year and 11-month financing agreement for the purpose of the Rogers land in the amount of \$325,000. Annual lease payments are due starting October 1, 2015.</p> | \$125,000 |
| <p>In January 2016, K-State and KSU Real Estate Fund, LLC entered into a 10-year financing agreement for the purpose of the Knox land in the amount of \$825,000. Annual lease payments are due starting February 1, 2016.</p> | \$650,000 |
| <p>In January 2016, K-State and Kansas State University Foundation entered into a 5-year financing agreement for the purpose of the Foundation Tower in the amount of \$2,500,000. Annual lease payments are due starting February 1, 2016.</p> | \$1,500,000 |
| <p>K-State is obligated for the purchase of certain equipment funded through issuance of blanket financing agreements.</p> | \$188,048 |

Capital Leases Payable Maturity Schedule:

| <u>Year Ending June 30:</u> | <u>Lease Payments</u> |
|-----------------------------|-----------------------|
| 2018 | \$ 1,171,747 |
| 2019 | 653,330 |
| 2020 | 642,571 |
| 2021 | 147,744 |
| 2022 | 158,212 |
| 2023-2027 | 463,675 |
| Total | \$ 3,237,279 |

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

Other Loans Payable

In fiscal year 2010, \$2,538,649 of special assessment bonds were issued in Johnson County to pay for the infrastructure of the K-State Olathe Innovation Campus, Inc., with an additional amount issued in fiscal year 2011 of \$427,368. The City of Olathe reevaluated property boundaries used to allocate special assessment bonds, as a result the liability decreased by \$338,105. The tax levy consists of annual payments of \$136,218 commencing in fiscal year 2011. The outstanding balance at June 30, 2017 is \$1,634,610.

K-State Athletics, Inc. has an available \$16,000,000 revolving line of credit with a banking institution with an interest rate of 2.75% and maturity on July 17, 2019, of which KSA has an outstanding balance of \$10,650,000 at June 30, 2017. Proceeds were used for the construction and renovation of the north end of Bill Snyder Family Stadium and Vanier Complex Phases III and IV. Pledged as collateral are all uncollected pledges associated with the Bill Snyder Family Stadium Phase III and Phase IV project.

Other Loans Payables summary:

| | | |
|---|----|--------------------------|
| K-State Olathe special assessment bonds | \$ | 1,634,610 |
| K-State Athletics line of credit | | <u>10,650,000</u> |
| Total | \$ | <u><u>12,284,610</u></u> |

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

Note 11 – Retirement Plans

K-State participates in one cost-sharing multiple-employer defined benefit pension plan, one defined contribution pension plan, and one federal pension plan.

Defined Benefit Plan

University Support Staff employees participate in the Kansas Public Employees Retirement System (KPERS). Benefit provisions are established by state statute and provide retirement, disability, and death benefits to benefits eligible employees. See Note 12 for detailed information.

Defined Contribution Plan

Eligible faculty and professional staff 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. The Regents have selected the following companies to provide investment options to participants: 1) Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF) and 2) Voya Financial. 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.

For the fiscal year ended June 30, 2017 active members were required by statute to contribute 5.5% and the university to contribute 8.5% of the employees' covered payroll. The Kansas Legislature establishes and may amend active plan members' and the university's contribution rates. K-State contributed \$20,075,319 during fiscal year 2017 and \$20,514,975 during fiscal year 2016. Individual employees contributed \$12,871,262 during fiscal year 2017 and \$13,128,317 during fiscal year 2016.

Federal Retirement Plan

Some Cooperative Extension Service employees at K-State hold federal appointments. Prior to December 31, 1986, federal appointees were required to participate in the Federal Civil Service Retirement System (CSRS), a defined benefit plan. CSRS employees are subject to the hospital insurance portion of FICA, the CSRS employee deduction of 7.0%, and the employer contribution of 7.0%.

The Federal Employees Retirement System (FERS), also a defined benefit plan, was created beginning January 1, 1987. Employees hired after December 31, 1983 were automatically converted to FERS. Other federal employees not covered by FERS had a one-time option to transfer to FERS through December 31, 1987. Current FERS employees contribute 0.8% with an employer contribution rate of 13.7%. They also participate in a Thrift Savings Plan with an automatic employer contribution of 1%. Employees may also contribute to this plan at variable rates, in which case the employer contributes at a variable rate up to 5%. CSRS employees are also eligible for participation in the Thrift Savings Plan, but without employer contributions. Acceptance of new member participation was terminated effective July 1, 1986.

For the fiscal years ended June 30, 2017 and June 30, 2016, K-State contributed \$522,670 and \$579,113 respectively. Individual employees contributed \$295,800 and \$348,393 to these plans for fiscal years 2017 and 2016, respectively.

Voluntary Tax-Sheltered Annuity Program

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. This 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.

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

Note 12 – Pension Plan – Kansas Public Employees Retirement System

General Information about the Pension Plan

Plan description: University Support Staff participate in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Benefits provided: KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Benefits are established by statute and may only be changed by the state's General Assembly. Member employees with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever an employee's combined age and years of credited service equal 85 "points".

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, member employees may withdraw their contributions from their individual accounts, including interest. Member employees who withdraw their accumulated contributions lose all rights and privileges of membership. The accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Member employees choose one of seven payment options for their monthly retirement benefits. At retirement a member employee may receive a lump-sum payment of up to 50% of the actuarial present value of the member employee's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump-sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas.

The 2012 Legislature made changes affecting new hires, current members and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015, was created. Normal retirement age for KPERS 3 is 65 with five years of service or 60 with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions: Member contribution rates are established by state law, and are paid by the employee according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation for each of the three state wide pension groups. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers, which includes the state and the school employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.1% of total payroll for the fiscal year ended June 30, 2016.

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

The actuarially determined employer contribution rates (not including the 1.00% contribution rate for the Death and Disability Program) and the statutory contribution rates are as follows: State employees' actuarial employer rate: 11.44%; statutory employer capped rate: 10.91%; Police and firemen actuarial employer rate: 20.42%; statutory employer capped rate: 20.42%. Contributions to the pension plan from K-State were \$16,651,871 for the year ended June 30, 2017.

The 2015 legislature passed and the governor approved Senate Bill 228 which authorized the issuance of \$1 billion in pension obligation bonds. This legislation also reset the state/school statutory rate to 10.91 % for fiscal year 2016 and 10.81% for fiscal year 2017.

Member contribution rates as a percentage of eligible compensation in fiscal year 2016 are 6.00% for public employees and 7.15% for police and firemen.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, K-State reported a liability of \$81,017,603 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, which was rolled forward to June 30, 2016. K-State's proportion of the net pension liability was based on the ratio of the university's actual contributions to KPERs, relative to the total employer and non-employer contributions of the State/School subgroup within KPERs for the fiscal year ended June 30, 2016. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2016 the K-State proportion was 1.175506%, which was an increase of 0.001726% from its proportion measured as of June 30, 2015. At June 30, 2016, K-State Police and Fire Group proportion was 0.216540%, which was an increase of 0.022243% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, K-State recognized pension expense of \$8,597,870. At June 30, 2017, deferred outflows of resources and deferred inflows of resources were reported related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Difference between expected and actual experience | \$ 106,146 | \$ 3,750,766 |
| Net difference between projected and actual earnings on pension plan investments | 7,399,236 | - |
| Changes in proportionate share | 3,470,990 | 603,893 |
| Changes in assumptions | - | 155,252 |
| University contributions subsequent to measurement date | <u>5,675,499</u> | <u>-</u> |
| Total | <u>\$ 16,651,871</u> | <u>\$ 4,509,911</u> |

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

\$16,651,871 reported as deferred outflows of resources related to pensions resulting from K-State's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | |
|---------------------|---------------------|
| 2018 | \$ 674,313 |
| 2019 | 674,313 |
| 2020 | 3,091,455 |
| 2021 | 2,212,450 |
| 2022 | (186,070) |
| Thereafter | - |
| Total | <u>\$ 6,466,461</u> |

Actuarial assumptions: The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|--|
| Price inflation | 3.00 percent |
| Wage inflation | 4.00 percent |
| Salary increases, including wage increases | 4.00 to 16.00 percent, including inflation |
| Long-term rate of return, net of investment expense and including price inflation | 8.00 percent |

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study conducted for the three-year period ending December 31, 2012.

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2016 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------|-------------------|--|
| Global equity | 47% | 6.80% |
| Fixed income | 13 | 1.25 |
| Yield driven | 8 | 6.55 |
| Real return | 11 | 1.71 |
| Real estate | 11 | 5.05 |
| Alternatives | 8 | 9.85 |
| Short-term investments | 2 | -0.25 |
| Total | 100% | |

Discount rate: The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from K-State will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of K-State's proportionate share of the net pension liability to changes in the discount rate: The following presents K-State's proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what K-State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|--|------------------------|----------------------------------|---------------------|
| Proportionate share of the net pension liability | \$ 105,492,150 | \$ 81,017,619 | \$ 60,231,541 |

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2017

Note 13 – Other Postemployment Healthcare Benefits

Description

As a component unit of the State of Kansas, K-State participates in the state's health insurance benefit plan. Kansas statute provides that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements. The health insurance benefit generally provides the same coverage for retirees and their dependents as for active employees and their dependents. The health insurance benefit plan is a single employer defined benefit plan administered by Kansas Health Policy Authority. The benefit is available for selection at retirement and is extended to retirees and their dependents for life. Non-Medicare participants are subsidized by the university through December 31, 2016. See the subsequent event notation at the end of this note.

Funding Policy

K-State provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 75-6511). Kansas statute, which may be amended by the state legislature, established that participating retirees contribute to the employee group health fund benefits plan, including administrative costs.

K-State does not generally share in the cost of the retiree plans. In very limited instances, K-State, under the Kansas Board of Regents policy, may offer a short term bridge plan to an individual retiree and will share in the cost of these limited offerings.

Annual Other Postemployment Benefits Cost (OPEB) and Net OPEB Obligation

K-State's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following table presents the components of the annual OPEB cost for the year, the contribution to the plan, and changes in K-State's net OPEB obligation.

| | | |
|---|----|----------------------|
| Annual required contribution (ARC) | \$ | 481,134 |
| Interest on net OPEB obligation | | 16,214 |
| Adjustment to the ARC | | <u>(360,068)</u> |
| Annual OPEB cost | \$ | 137,280 |
| Fiscal Year 2017 Net Employer Contributions | | (481,134) |
| Net OPEB obligation July 1, 2016 | | <u>421,134</u> |
| Net OPEB obligation June 30, 2017 | \$ | <u><u>77,280</u></u> |

Kansas State University

Notes to Financial Statements For the Year Ended June 30, 2017

Schedule of Employer Contributions (for fiscal year ended):

| Fiscal Year | Annual OPEB Cost | Net Employer Contributions | Percentage Contributed | End of Year Net OPEB Obligations |
|----------------|------------------------|----------------------------------|---------------------------|--|
| 2015 | 2,639,000 | 896,000 | 34% | 20,555,000 |
| 2016 | (19,377,028) | 756,838 | 0% | 421,134 |
| 2017 | 137,280 | 481,134 | 350% | 77,280 |

Funded Status and Funding Progress

As of June 30, 2017, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$77,280. K-State's policy is to fund the benefits on a pay-as-you-go basis that is paid implicitly through rate subsidization, resulting in an unfunded actuarial accrued liability (UAAL) of \$77,280. The covered payroll (annual payroll of active employees covered by the plan) was \$368,671,442, and the ratio of the UAAL to the covered payroll was 0 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding progress will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percent of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|--------------------------|--------------------------|---------------------------|--|
| 6/30/2015 | 0 | 24,526,000 | 24,526,000 | 0% | 351,908,000 | 7% |
| 6/30/2016 | 0 | 421,134 | 421,134 | 0% | 376,717,292 | 0% |
| 6/30/2017 | 0 | 77,280 | 77,280 | 0% | 368,671,442 | 0% |

Actuarial Methods and Assumptions

Projections of benefits for reporting purposes are based on the substantive plan and include the types of benefits provided at the time of valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

Note 14 – Pollution Remediation

The following disclosures are made in accordance with GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*:

A chemical waste landfill was created with approval of the U.S. Atomic Energy Commission and utilized from the mid-1960's to 1987 as a burying ground for tritium, carbon-14 and other short-lived radioactive elements. The university also disposed of some chemicals at the site from 1979 to 1983. The Kansas Board of Regents approved the plan to clean up the site, which commenced in FY2011 and was completed as of July 2012. Monitoring groundwater, sampling and reporting will continue as mandated by the EPA.

Seven monitoring wells have been installed and a quarterly sampling schedule is in effect related to the removal of diesel and gasoline underground storage tanks at the Ashland Bottoms Agronomy farm in Riley County. The remediation costs are paid from the State of Kansas Storage Tank Trust fund, less a \$4,000 deductible which has been paid by the university.

Note 15 – Commitments and Contingencies

At June 30, 2017, K-State had outstanding commitments on various construction projects and contracts totaling approximately \$26.5 million.

K-State is a defendant in several lawsuits. However, university officials are of the opinion, based on advice of in-house legal counsel, that the ultimate outcome of all litigation will not have a material effect on the future operations or financial position of the university.

As of July 1, 2016, university property was insured with a \$250,000 deductible and a maximum of \$1,000,000,000 per occurrence. Coverage extends to buildings, machinery, equipment, and other contents (contents of buildings are covered at 10% of the value of the building) as well as business interruption. Property insurance is currently arranged through the Midwest Higher Education Compact. K-State, as an agency of the State of Kansas, is covered by the Kansas Tort Claims Act, which generally limits the university's liability for general liability and personal injury claims to \$500,000 for any number of claims arising out of a single occurrence or event. K-State does not carry separate comprehensive general liability or personal injury insurance for the university as a whole. K-State is also covered by the Regent's umbrella insurance policy for automobile liability. The university is not aware of any significant outstanding claims as of June 30, 2017.

K-State participates in the Federal Perkins Loan Program, under which loans are provided to eligible students and repayments are made directly to K-State to provide funding for future eligible participants in the program. Effective October 1, 2015, the Department of Education (DOE) stipulated that new loans may not be disbursed under the program; however, the Perkins Loan Extension Act of 2015 was passed in December 2015 extending the date for which Perkins Loans may be awarded to September 30, 2017. Therefore, effective October 1, 2017, new loans may not be awarded under the program and will ultimately result in the closure of the program. If students receive a disbursement of a Perkins Loan after June 30, 2017 and before October 1, 2017 for the 2017-2018 award year the student may receive any subsequent disbursements of that Perkins Loan. Pursuant to GASB accounting standards, K-State has recorded previous contributions from the Federal Government for the program as revenue (and related restricted net position) in the period that the funds were received. The closure of this program will result in K-State recording an expense when refunding previous federal contributions received under this program to the DOE. As a part of the program, each year an Excess Liquid Cash calculation is made by the DOE to calculate any required amounts to be returned to the DOE. K-State's cash restricted for the program for which a portion or all could be required to be returned totaled approximately \$1,369,669 at June 30, 2017, and will change in future years based upon the activity of the program.

In the normal course of operations, K-State receives grants, contracts, and other forms of reimbursement from various federal and state agencies. These activities are subject to audit and disallowance by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. University officials believe that the liability, if any, for any reimbursement that may arise as the result of audits, would not have a material effect on K-State's financial position.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2017

Note 16 – Component Unit Disclosures

Discretely Presented Component Units

The following referenced activity between K-State and its discretely presented component units has been combined into separate columns on K-State's financial statements labeled Component Units. Transactions between K-State and these entities are considered services provided and used and therefore have not been eliminated.

Kansas State University Institute for Commercialization (KSUIC) – On the Statement of Revenues, Expenses and Changes in Net Position, Operating Income and Change in Net Position is (\$625,614). KSUIC paid K-State \$30,505 for support services during the fiscal year ending June 30, 2017. Investments held by KSUIC at fiscal year-end total \$2,949,341 on the Statement of Net Position.

Kansas State University Research Foundation (KSURF) – As of June 30, 2017, KSURF had investments totaling \$4,358,594 on the Statement of Net Position. The Change in Net Position on the Statement of Revenues, Expenses and Changes in Net Position for KSURF totaled \$121,044 for the fiscal year.

Kansas State University Veterinary Clinical Outreach, Inc. (KSUVCO) – The Change in Net Position is \$63,792 on the June 30, 2017 Statement of Revenues, Expenses and Change in Net Position. Investments at fiscal year-end total \$3,418,278 on the Statement of Net Position.

The K-State Union Corporation (the Union) – The Union is operated from facilities owned by K-State without charge. Included in the Change in Net Position amount of \$590,275 on the June 30, 2017 Statement of Revenue, Expenses and Change in Net Position are revenues received from K-State and related entities in the amount of \$2,895,959. The Union has a note payable due to the K-State in the amount of \$420,000, which is to be repaid in equal annual installments of \$80,000 per year for the years 2017 through 2022 and a final payment of \$20,000 in 2023. This loans bears no interest. Investments at fiscal year-end total \$20,339 on the Statement of Net Position.

Kansas State University Foundation (the Foundation) – The purpose of the Foundation is to encourage, receive and hold in trust any real or personal property given for the use of K-State, its faculty and students; and to invest, disburse, manage and control all such gifts in accordance with donor intent and to provide those services to K-State which are not or cannot be provided through state appropriations or student fees. Due to the differences between K-State and the Foundation's reporting models, the Foundation's financial statements are separately presented immediately following K-State's statements, with no modifications.

The Foundation's endowment consists of approximately 3,300 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). In accordance with generally accepted accounting principles, 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.

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2017

The following items are included in the Foundation's Net Assets as of June 30, 2017:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|----------------------|-----------------------------------|-----------------------------------|-----------------------|
| Donor restricted endowments | \$ (8,670,000) | \$ 6,035,034 | \$ 384,366,269 | \$ 381,731,303 |
| Board designated endowments | 28,679,970 | - | - | 28,679,970 |
| Board policy designated to address underwater endowments | 38,154,434 | - | - | 38,154,434 |
| Quasi and term endowments | - | 90,084,112 | - | 90,084,112 |
| Non-endowment funds | 18,619,026 | 45,117,689 | - | 63,736,715 |
| Donor restricted expendable gifts | - | 169,747,176 | - | 169,747,176 |
| Program related real estate | - | 281,900 | 2,287,995 | 2,569,895 |
| Net real estate and other depreciable property | - | 7,950,635 | - | 7,950,635 |
| Pledges receivable | 119,003 | 47,028,455 | 5,690,536 | 52,837,994 |
| Other assets and accrued income | 3,603,457 | 2,422,533 | 1,946,022 | 7,972,012 |
| Cash surrender value | 280,316 | 3,159,701 | 2,826,573 | 6,266,590 |
| Receivables from estates | - | 220,007 | 583,493 | 803,500 |
| Unitrust and annuity liabilities | - | (4,003,216) | (15,841,987) | (19,845,203) |
| Funds held for others | - | (12,011,850) | (279,329) | (12,291,179) |
| Accrued liabilities | (2,746,571) | (1,723,517) | - | (4,470,088) |
| | <u>\$ 78,039,635</u> | <u>\$ 354,308,659</u> | <u>\$ 381,579,572</u> | <u>\$ 813,927,866</u> |
| Net Assets | <u>\$ 78,039,635</u> | <u>\$ 354,308,659</u> | <u>\$ 381,579,572</u> | <u>\$ 813,927,866</u> |

Kansas State University

Notes to Financial Statements For the Year Ended June 30, 2017

The Foundation's investments include debt and equity securities for liquidity, donated assets and real estate, as well as a managed portfolio of long-term investments. The Foundation's investments at June 30, 2017 were as follows:

| | June 30, 2017 | 2017 Fair Value Measurements | | |
|---|-----------------------|------------------------------|---------------------|-----------------------|
| | | Level 1 | Level 2 | Level 3 |
| Investments by fair value level | | | | |
| Equity securities | \$ 137,651,864 | \$ 137,651,864 | \$ - | \$ - |
| Mutual funds | - | - | - | - |
| U.S. Government and agency obligations | 4,372,263 | - | 4,372,263 | - |
| Corporate bonds | 56,219 | - | 56,219 | - |
| Futures contracts | 45,160,784 | 46,588,105 | (1,427,321) | - |
| Closely held common stock | 110,583,749 | - | - | 110,583,749 |
| Real estate held for investment | 48,419,882 | - | - | 48,419,882 |
| Total investments by fair value level | \$ 346,244,761 | \$ 184,239,969 | \$ 3,001,161 | \$ 159,003,631 |
| Investments measured at the net asset value (NAV) | | | | |
| Equity long/short hedge funds | \$ 82,426,089 | | | |
| Event-driven hedge funds | 29,800,484 | | | |
| Equity securities | 142,276,261 | | | |
| Venture capital | 50,488,838 | | | |
| Domestic private equity | 25,269,722 | | | |
| International private equity | 13,141,448 | | | |
| Private capital distressed debt | 4,274,402 | | | |
| Natural resources | 18,202,159 | | | |
| Fixed income | 7,640,319 | | | |
| Other securities and investments | 42,831 | | | |
| Real estate funds | 17,070,354 | | | |
| Total investments measured at the NAV | \$ 390,632,907 | | | |
| Total investments | \$ 736,877,668 | | | |

For the fiscal year ended June 30, 2017, the total return of the Endowment Pool was 8.64%.

The Foundation holds certain assets for the benefit of K-State which do not provide a market rate of return on funds invested. Some examples of these investments include:

University Real Estate Fund – Certain real estate holdings vital to the mission of K-State were purchased and are held for current and potential university use.

Smith Scholarship House – The Foundation has provided the building rent-free in order to maintain the house in operation for the benefit of the students.

Holiday Inn and Wildcat BP – The hotel and service station located adjacent to the university were built on land acquired by the Foundation to meet the needs of public lodging and service facilities close to the university.

Faculty and Accommodation Loans – The Foundation provides faculty loans at favorable interest rates to K-State faculty and staff to enable them to conduct business travel pending reimbursement from the university. Non-interest-bearing accommodation loans are available to faculty and staff when their salary payment cannot be processed by the university by payday.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2017

Blended Component Units

Transactions between K-State and the following blended units have been eliminated from the financial statements. All other balances and transactions are blended with those of K-State and reported as if they were balances and transactions of the university.

K-State Olathe Innovation Campus, Inc. (Olathe) – On the Statement of Revenues, Expenses and Changes in Net Position, the Change in Net Position is recorded as \$3,351,381. Payments were made to K-State totaling \$1,764,228 during the fiscal year ending June 30, 2017. Investments held by Olathe at fiscal year-end total \$993,790.

K-State Italy – Revenues received from K-State totaled \$70,890.

K-State Diagnostic and Analytical Services, Inc. (KDAS) – The Change in Net Position on the June 30, 2017 Statement of Revenues, Expenses and Changes in Net Position was \$6,248,061. Revenues received from K-State totaled \$1,151,296 and payments to K-State totaled \$5,575,161.

K-State Athletics, Inc. (Athletics) – K-State owns all land used by Athletics, and any purchases and/or construction of permanent real property (i.e. buildings, land and improvements) on the land are recorded as leasehold improvements. On the Statement of Revenues, Expenses and Changes in Net Position, the Change in Net Position is recorded as \$22,116,520. Payments made to K-State and its affiliates totaled \$13,943,405 during the fiscal year ending June 30, 2017. Revenue received from K-State was \$493,758. Investments held by Athletics at fiscal year-end totaled \$36,638,299 on the Statement of Net Position. Net pledges receivable, which consist of unconditional promises to give cash and other assets, totaled \$16,820,915. Pledges are accrued at estimated fair value at the date each promise is received. An allowance for doubtful collections is estimated by identifying specific pledges that are in doubt and applying a historical percentage to the remaining pledges.

Note 17 – Operating Expenses by Natural Classification

| | Compensation & Benefits | Supplies & Other Services | Utilities | Scholarships & Fellowships | Depreciation | Total |
|-------------------------------------|----------------------------|------------------------------|----------------------|-------------------------------|----------------------|-----------------------|
| Instruction | \$ 184,525,970 | \$ 30,802,997 | \$ 14,681 | \$ - | \$ - | \$ 215,343,648 |
| Research | 99,057,386 | 58,003,825 | 336,475 | - | - | 157,397,686 |
| Public Service | 54,975,065 | 20,367,330 | 23,375 | - | - | 75,365,770 |
| Academic Support | 34,022,672 | 14,119,486 | 8,690 | - | - | 48,150,848 |
| Student Service | 16,534,341 | 9,938,469 | 274 | - | - | 26,473,084 |
| Institutional Support | 25,094,661 | 9,217,865 | 72 | - | - | 34,312,598 |
| Operations and Maintenance of Plant | 18,024,907 | 13,877,692 | 15,942,721 | - | - | 47,845,320 |
| Depreciation | - | - | - | - | 50,724,859 | 50,724,859 |
| Scholarships and Fellowships | - | - | - | 31,415,032 | - | 31,415,032 |
| Auxiliary Enterprises | 59,856,757 | 35,165,153 | 2,975,358 | - | - | 97,997,268 |
| Other | - | 1,900,440 | - | - | - | 1,900,440 |
| Total Operating Expenses | \$ 492,091,759 | \$ 193,393,257 | \$ 19,301,646 | \$ 31,415,032 | \$ 50,724,859 | \$ 786,926,553 |

Kansas State University
Annual Financial Report
For the fiscal year ended June 30, 2017
is available at:
<http://www.k-state.edu/finsvcs/financialreporting/reports.html>

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