

Kansas State University

Annual Financial Report
Fiscal Year Ended June 30, 2015



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 (University) for the year ended June 30, 2015, with comparative totals for the year ended June 30, 2014. This discussion has been prepared to assist readers in understanding the accompanying financial statements and footnotes.

The University'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 Government Accounting Standards Board (GASB) principles for public colleges and universities.

Implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, required a prior period restatement resulting in a decrease in net position.

STATEMENT OF NET POSITION

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows, and net position of the University 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. The current classification distinguishes those assets that are highly liquid and available for immediate and unrestricted use by the University, and those liabilities likely to be settled in the next 12 months.

Net Position is divided into three categories:

1. **Net investment in capital assets** consists of the University's equity in property, plant, and equipment owned by the University, 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 only available for investment purposes. Expendable restricted net position resources are available for expenditure by the University, 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 the University for any lawful purpose of the institution. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the University's resources in this category have been designated for various academic and research programs and initiatives.

Total assets at June 30, 2015 were \$1.3 billion, an increase of \$122.1 million (10.1%). This was largely attributable to an increase in pledges receivable in the Athletics component unit. Capital assets, net of depreciation, comprised 64.9%, or \$859.8 million of the total assets.

Total deferred outflows increased \$5.4 million and were due to inclusion of pension contributions in the Statement of Net Position, a result of implementing GASB 68 in 2015.

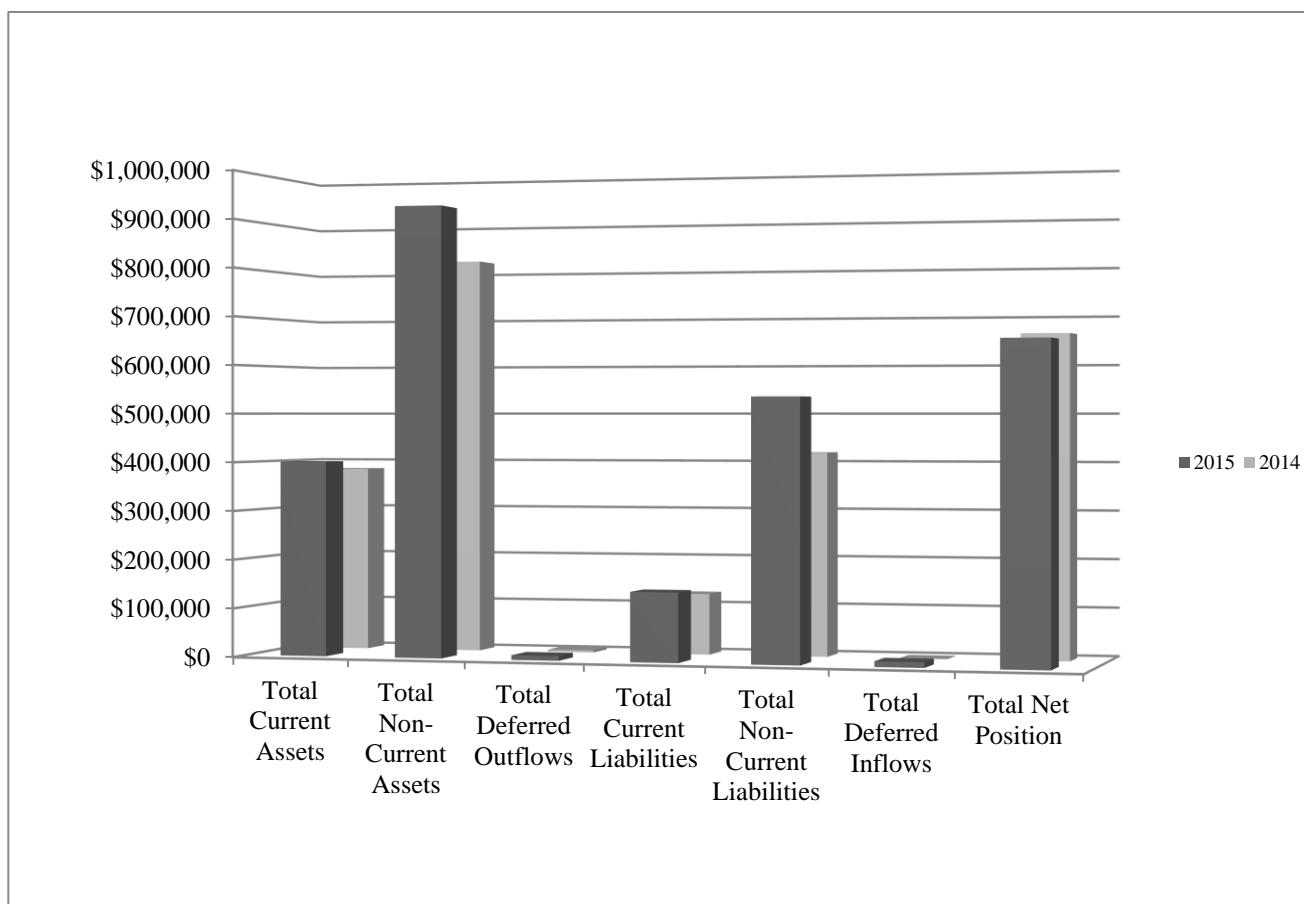
Total liabilities were \$675.6 million at June 30, 2015, an increase of \$130.7 million (24%), compared to \$544.9 million at June 30, 2014. This increase was driven by the issuance of bonds and GASB 68 implementation. Long-term liabilities comprised 79.1%, or \$534.2 million of the total liabilities.

Deferred inflows totaled \$11.4 million and consisted of pension contributions due to the adoption of GASB 68 in 2015.

Total net position at June 30, 2015 was \$648.1 million, a \$14.6 million decrease compared to the previous fiscal year. Exclusive of GASB 68 implementation differences affecting unrestricted net position, the university's net investment in capital assets increased \$94.3 million representing the University's continued commitment to improving and maintaining the learning and work environment of the campus community. Restricted net position decreased due to restriction parameters being met and funds being used for their intended purposes. The breakout of net position is shown below:

| | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
|---------------------------------------|----------------------|----------------------|
| Net investment in capital assets..... | \$496,510,098 | \$402,206,348 |
| Restricted net position | 45,036,792 | 77,062,353 |
| Unrestricted net position | 106,566,828 | 183,417,885 |
| Total net position..... | \$648,113,718 | \$662,686,586 |

The composition of current and non-current assets and liabilities and net position is displayed below for both the 2015 and 2014 fiscal year ends (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 by the University for operating, non-operating and other related activities during a period of time. Its purpose is to assess the University's operating results.

Revenues

Operating revenues at the University as of June 30, 2015 increased by \$37.1 million (6.7%) over the previous fiscal year. The following is a brief summary of the significant changes:

- Student fee revenues, after scholarship allowances, were \$226 million in 2015, compared to \$206.6 million in 2014. This increase is a result of an enrollment growth of almost 185 students and a tuition increase approved by the Kansas Board of Regents for fiscal year 2015.
- Grants and contracts (federal, state and local, and non-governmental) increased \$2.9 million from the previous fiscal year. This category of revenue includes funds received for sponsored research activities and athletic contractual agreements.
- Sales and services increased \$5 million from the previous fiscal year.
- Auxiliary enterprises include Housing, Parking, University health services, Child Care Center and a variety of other smaller services. With the exception of Housing, revenues remained consistent with the previous fiscal year. Housing revenues increased \$4.2 million, a result of increased occupancy rates and a moderate housing rate increase for the fiscal year.
- Other operating revenues increased \$1.4 million and contributions increased \$2.2 million.

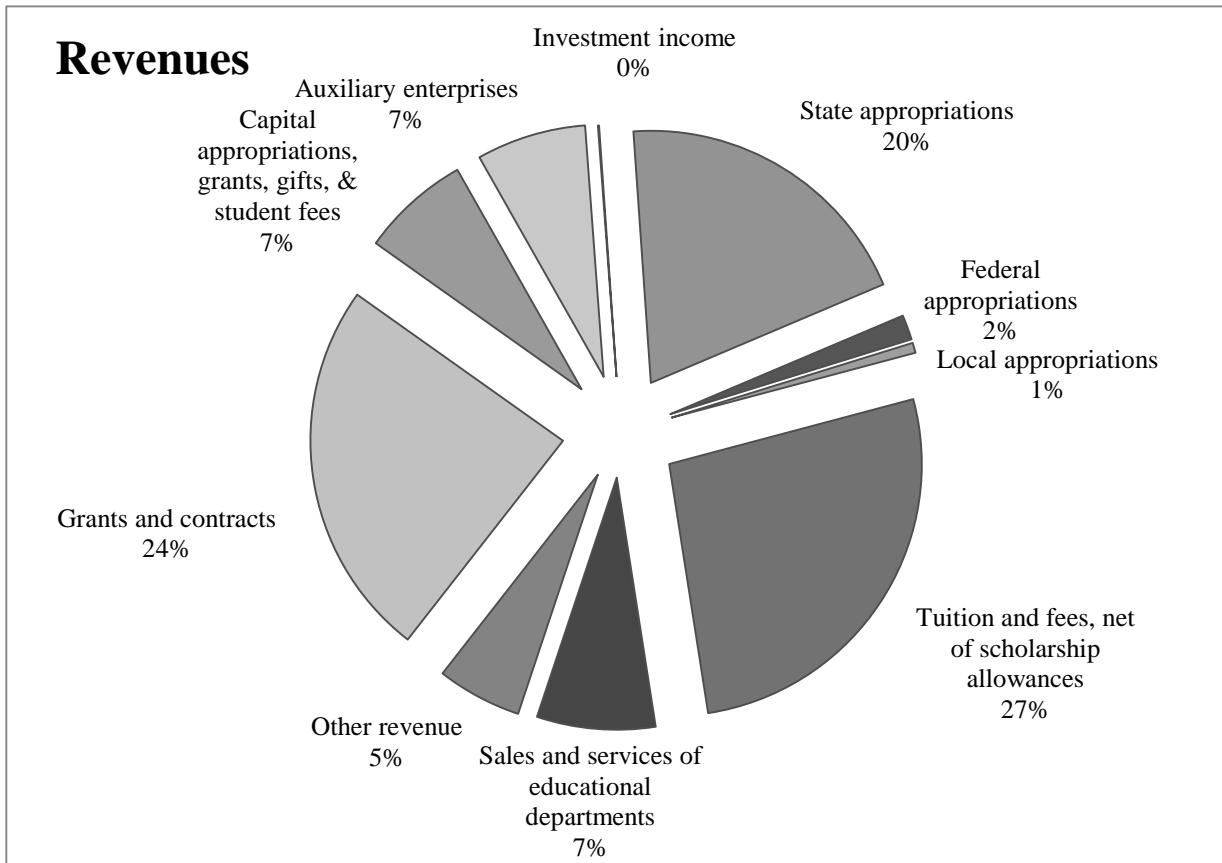
Total non-operating revenues were up 6.2% from the prior year from \$161 million to \$170.1 million. The following is a brief summary of the significant changes:

- State appropriations increased from \$162.1 million to \$166.9 million.
- Local appropriations increased \$0.2 million based on increased sales tax collections.
- Investment income decreased \$3.2 million, which is reflective of national market conditions.
- Student fees collected for capital projects and non-operating grants and contracts increased \$0.7 million from the previous fiscal year.

Other revenues included the following:

- Capital appropriations decreased from \$11.5 million to \$10.5 million.
- Capital grants and gifts decreased from \$70.7 million to \$44.7 million, which was related to gifts received for various construction projects.

In summary, total revenues increased by \$16 million, or 1.9%, from \$831.1 million to \$847.1 million. The compositions of these revenues are displayed in the following graph:



Expenses

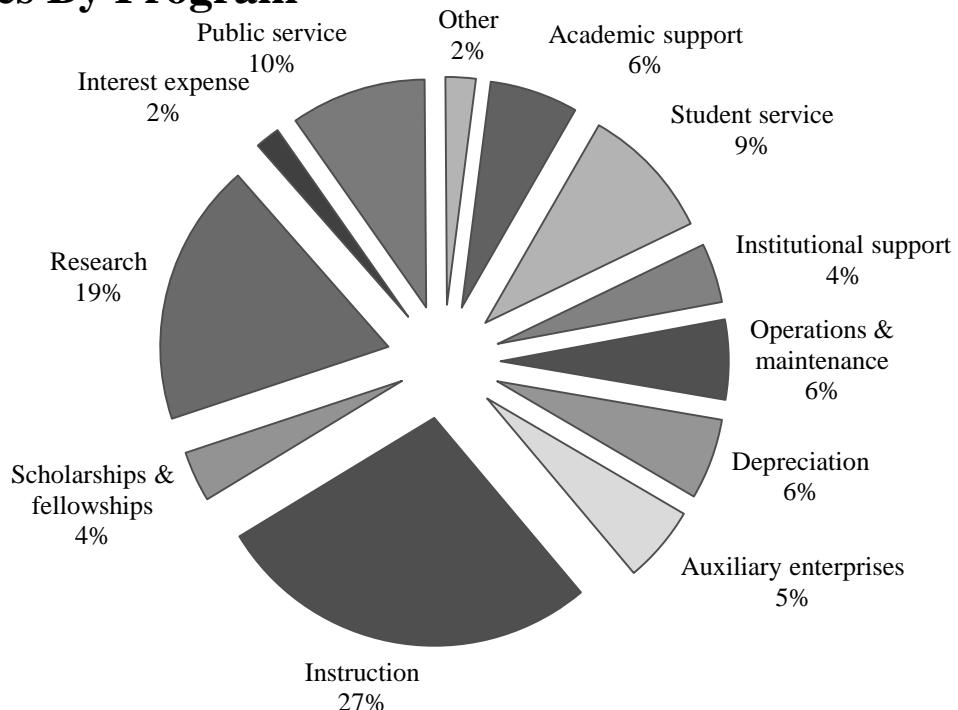
Operating expenses were \$763.7 million for the 2015 fiscal year. This was an increase over the prior year of \$19 million or 2.6%. The following is a brief summary of the significant changes:

- Expenses related to the University's mission of instruction, research and public service increased \$11.4 million from \$430.3 million to \$441.7 million in 2015.
- Auxiliary service expenses decreased \$.5 million from \$43.7 million to \$43.2 million in 2015.
- Expenses related to academic support, student services, and institutional support increased \$8.8 million from \$150.1 million to \$158.9 million in 2015.
- Operations & maintenance of plant expenditures decreased \$3.5 million from \$48.4 million to \$44.9 million in 2015.
- Depreciation and other expenses increased \$2 million from \$44.4 million to \$46.4 million.

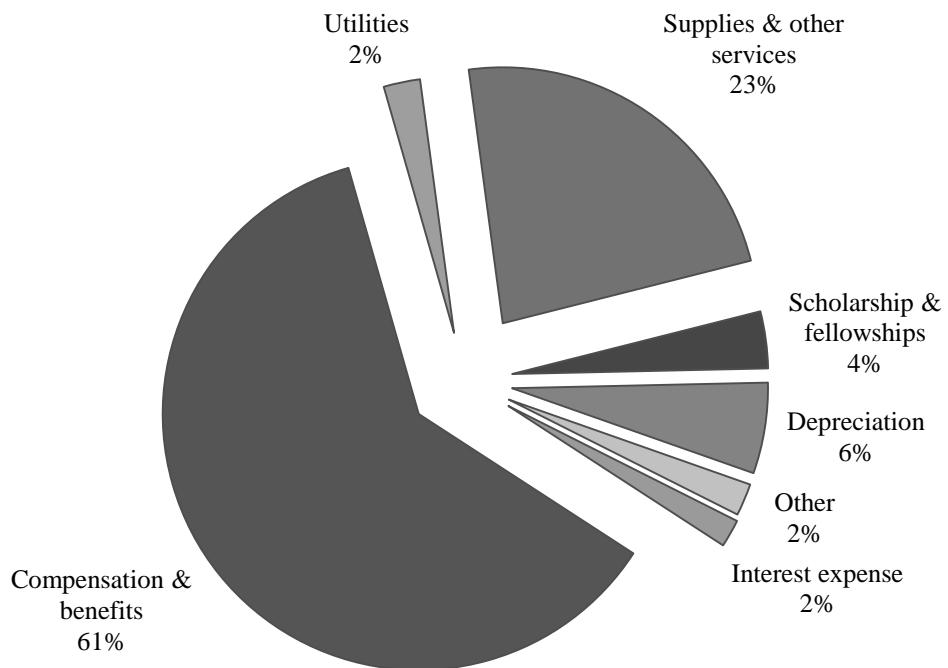
Non-operating expenses decreased \$6.3 million from \$34.7 million to \$28.4 million in 2015 and are represented by interest expense and loss on disposal of assets, attributed to the K-State Athletics, Inc.

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

Expenses By Program



Expenses By Natural Classification



STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents cash receipts and payments of the University during a period of time. Its purpose is to assess the University'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, 2015</u> | <u>June 30, 2014</u> |
|---|----------------------|----------------------|
| Net cash provided (used) by: | | |
| Operating activities | \$ (127,731) | \$ (134,726) |
| Non-capital financing activities | 194,468 | 187,613 |
| Capital and related financing/appropriations | (78,423) | 15,575 |
| Investing activities | 25,331 | (3,221) |
| Net increase in cash | <u>13,645</u> | <u>65,241</u> |
| Beginning cash and cash equivalent balances | <u>333,055</u> | <u>267,814</u> |
| Ending cash and cash equivalent balances | \$ 346,700 | \$ 333,055 |

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/local appropriations, federal grants and contracts, and the receipt and disbursement of the federal direct student loan program and the PELL program. Cash provided for capital and related financing activities represents proceeds from debt, the 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

The University made significant investments in capital during the 2014-2015 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 FY2015, the university spent approximately \$15.5 million on infrastructure and deferred building maintenance projects.

Additionally, the University was involved in several construction projects that were in physical construction or planning and design phases at year-end:

- Construction began in FY2014 on a \$40 million Engineering Complex addition, which will provide additional offices and teaching spaces and allow better educational opportunities for students to do collaborative work with the College of Engineering's faculty and advisors. The project is expected to be completed in FY2016.
- A new resident hall and dining center project was initiated in FY2014. The \$70 million project will alleviate the current dormitory overflow situation and allow first and second year students to be close to the core campus where their classes are located. Completion is expected in FY2016.
- Groundbreaking occurred in October 2014 for the new College of Business Administration building. Funding for the \$50 million project will be provided by a combination of private gifts and university funds. The new building will house the College of Business Administration's faculty, staff, and students as well as provide an inviting place for the alumni and business community. Completion is expected early in FY2017.
- Construction began in January 2015 for a \$20 million Welcome Center in East Memorial Stadium. The historic Memorial Stadium, completed in 1924, will provide a central location for students and families to connect with several different university services, including New Student Services, Admissions, Career and Employment Services, Housing and Dining Services and Student Financial Assistance. Completion is expected late in FY2016.

- As part of the university's third phase to update Bill Snyder Family Stadium, construction on the Vanier Football Complex began in December 2014 and was completed by August 2015. The \$69 million complex doubled the amount of space for student-athletes and coaches. The expansion included an academic learning center; strength, conditioning, training and recovery area; locker rooms; a team theater and meeting rooms; an office complex for coaches; and improved north-end seating and fan amenities.
- A \$56 million expansion of the chilled water system has commenced. This project is in line with the K-State 2025 strategic plan to build an efficient, reliable and cost-effective central utility plant that provides the capacity for campus expansion. The project is expected to be complete in FY2018.

Several projects are in the planning stages, including, renovation of the Seaton Complex for the College of Architecture, Planning and Design, renovation of the Student Union and construction of an Equine Performance Testing Facility.

DEBT ADMINISTRATION

At June 30, 2015, the University had \$453.7 million in debt outstanding, compared to \$412 million at June 30, 2014. The increase of \$41.7 million is due to the issuance of \$61.9 million in bonds for the chilled water system expansion and was partially offset by advanced refunding of two existing Housing bond issues. The University paid \$13.7 million in principal payments related to all outstanding debt.

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

ECONOMIC OUTLOOK

The University continues to make progress towards its goal to become a Top 50 Public Research University by the year 2025. Our endowment has increased to \$488.8 million in this past year, which benefits key areas for our faculty, staff and students. The University's alumni, friends, corporate partners, students, faculty and staff provided a total of \$141.5 million of gift activity, the third most successful year in charitable giving in the more than 70-year history of the Kansas State University Foundation. This is the fourth consecutive year that fundraising has topped \$100 million.. These private funding efforts reflect confidence in the direction K-State is heading in providing a quality educational experience for our students, and the vital research efforts our faculty provide to the state, nation, and world.

Large investments are being made to the university's building infrastructure along with substantial classroom and office space being constructed. The Engineering expansion project, funded partly from the Engineering Initiative Act funds and private giving, is expected to be completed by the end of this October. The new College of Business Administration building is expected to be completed in July, 2016 and the chill water plant project will continue through summer of 2017. The 2015 Kansas Legislature appropriated funding to support debt service for a major renovation and expansion of the College of Architecture, Planning and Design facility scheduled to begin this fall. In addition, the Student Union renovation project of \$25 million will also begin this fall with the completion expected in fall of 2016.

Student enrollment for the 2014-2015 academic year grew slightly over 2013-2014, with projections for the 2015-2016 academic year predicting declines in enrollment. Overall, the financial position of the University is stable and management will continue to monitor state and national economic conditions as part of its financial planning.

The State of Kansas currently lags behind the national average for economic growth. Tax initiatives implemented in 2012 by the State of Kansas, which were intended to stimulate the state's economy, continue to negatively impact revenue collections at the state level. As a result, the State Legislature recently increased the State's rate on sales and cigarette taxes. These tax changes were made in an effort to stabilize revenue collections which had fallen dramatically over the last several years. Even with these tax changes, anticipated revenue collections will barely be sufficient to fund promised expenditures. In the future, it is anticipated that revenue will have to increase just to meet minimal obligations in increased expenditures for human service caseloads and K-12 costs. The long-term outlook of the university's state appropriations remains uncertain.

State appropriations for fiscal year 2016 are currently set at \$166.6 which is essentially the same as was appropriated in fiscal year 2015. The flat funding continues a targeted investment of \$5 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. Additionally, the Governor continued to support the initiative to increase the number of engineering graduates from the University, by funding \$3.5 million for the fourth year of a ten year funding strategy. In addition, the University continues to grow extramural funding opportunities along with exploring new student recruitment efforts and collaborative initiatives outside of the United States.

Beginning with fiscal year 2016, the Kansas Legislature imposed a cap on tuition increases for all regents' institutions for the next two academic years. The maximum increase institutions are allowed is a combination of the published Consumer Price Index for the prior calendar year plus 2 percent. Essentially, for academic year 2015-2016, the University's planned tuition rate increase was capped at 3.6 percent (2014 CPI of 1.6% plus 2%). This cap restricted the amount of new revenues flowing into the university.

As state funding has remained stagnant or fallen, pressure has increased on financing increased operating costs as well as growth in key academic areas with tuition dollars and extramural funding. The Legislature's cap on tuition increases reduces the University's flexibility in structuring our financial resources to meet today's needs.

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

Kansas State University
Statement of Net Position
For the Year Ended June 30, 2015

| | University Funds | | Component Units | |
|--|-----------------------|-----------------------|----------------------|----------------------|
| | 2015 | 2014 | 2015 | 2014 |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 333,839,220 | \$ 325,548,596 | \$ 11,054,719 | \$ 7,593,869 |
| Accounts receivable, net | 43,144,987 | 38,608,077 | 416,946 | 398,035 |
| Pledges receivable, net | 5,260,793 | 2,687,922 | - | - |
| Investments | 7,359,235 | 5,583,187 | 6,857,028 | 6,684,805 |
| Loans to students, net | 5,012,736 | 5,052,565 | - | - |
| Inventories | 4,755,097 | 4,059,521 | 132,186 | 477,005 |
| Prepaid expenses | 1,127,823 | 839,976 | 29,472 | 70,395 |
| Total Current Assets | <u>400,499,891</u> | <u>382,379,844</u> | <u>18,490,351</u> | <u>15,224,109</u> |
| Noncurrent Assets | | | | |
| Restricted cash and cash equivalents | 12,860,623 | 7,505,909 | 30,000 | 75,000 |
| Pledges receivable, net | 18,128,900 | 18,491,335 | - | - |
| Investments | 22,611,296 | 51,973,361 | 1,943,229 | 1,377,697 |
| Loans to students, net | 10,950,608 | 11,508,964 | - | - |
| Other assets | 761,498 | 851,556 | 120,000 | 247,000 |
| Capital assets, net | 859,795,230 | 730,818,222 | 1,982,306 | 2,170,821 |
| Total Noncurrent Assets | <u>925,108,155</u> | <u>821,149,347</u> | <u>4,075,535</u> | <u>3,870,518</u> |
| Total Assets | <u>1,325,608,046</u> | <u>1,203,529,191</u> | <u>22,565,886</u> | <u>19,094,627</u> |
| DEFERRED OUTFLOWS | | | | |
| Unamortized loss on bond refunding | 3,774,363 | 4,097,721 | - | - |
| Pension Contributions | 5,729,682 | - | - | - |
| Total Deferred Outflows of Resources | <u>9,504,045</u> | <u>4,097,721</u> | <u>-</u> | <u>-</u> |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts payable and accrued liabilities | 64,539,502 | 50,342,301 | 1,149,954 | 1,373,663 |
| Due to other agencies | 724,222 | 715,027 | - | - |
| Unearned revenue | 41,116,954 | 42,109,372 | 672,590 | 803,069 |
| Accrued compensated absences | 18,600,000 | 17,140,137 | 6,528 | 16,405 |
| Capital lease payable | 821,534 | 798,128 | - | - |
| Other loan payable | 136,218 | 136,218 | 699,297 | 126,843 |
| Revenue bonds payable, net | 15,032,214 | 13,707,991 | - | - |
| Other liabilities | - | - | 29,174 | - |
| Deposits held in custody for others | 441,548 | 523,061 | 1,154,106 | 1,036,038 |
| Total Current Liabilities | <u>141,412,192</u> | <u>125,472,235</u> | <u>3,711,649</u> | <u>3,356,018</u> |
| Noncurrent Liabilities | | | | |
| Accrued compensated absences | 2,931,751 | 3,337,518 | - | - |
| Accrued other postemployment benefits | 20,555,000 | 18,812,000 | - | - |
| Capital lease payable | 1,578,097 | 2,465,305 | - | - |
| Other loan payable | 1,770,828 | 1,907,046 | 30,000 | 729,297 |
| Revenue bonds payable | 434,367,394 | 392,912,979 | - | - |
| Other liabilities | 1,052,024 | 33,243 | - | - |
| Net pension liability | 71,947,881 | - | - | - |
| Total Noncurrent Liabilities | <u>534,202,975</u> | <u>419,468,091</u> | <u>30,000</u> | <u>729,297</u> |
| Total Liabilities | <u>675,615,167</u> | <u>544,940,326</u> | <u>3,741,649</u> | <u>4,085,315</u> |
| DEFERRED INFLOWS | | | | |
| Pension Costs | 11,383,206 | - | - | - |
| Total Deferred Inflows of Resources | <u>11,383,206</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 496,510,098 | 402,206,348 | 1,982,306 | 2,170,821 |
| Restricted for: | | | | |
| Nonexpendable | 4,372,691 | 17,005,336 | - | - |
| Expendable | | | | |
| Scholarships, research, instruction, public service, & other | (16,004,571) | 21,727,144 | 210,000 | 220,925 |
| Loans | 19,438,206 | 19,968,280 | 75,000 | 120,000 |
| Capital projects | 21,709,914 | 12,954,935 | 763,096 | 401,102 |
| Debt service | 15,520,552 | 5,406,658 | - | - |
| Unrestricted | <u>106,566,828</u> | <u>183,417,885</u> | <u>15,793,835</u> | <u>12,096,464</u> |
| Total Net Position | <u>\$ 648,113,718</u> | <u>\$ 662,686,586</u> | <u>\$ 18,824,237</u> | <u>\$ 15,009,312</u> |

Kansas State University
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015

| | University Funds | | Component Units | |
|---|-----------------------|-----------------------|----------------------|----------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Operating Revenues: | | | | |
| Tuition and fees, net of scholarship allowances of \$43,053,277 | \$ 226,005,082 | \$ 206,596,069 | \$ 2,782,362 | \$ 2,803,190 |
| Federal appropriations | 13,452,457 | 12,143,887 | - | - |
| Federal grants and contracts | 88,595,953 | 79,511,422 | - | - |
| State and local grants and contracts | 9,274,060 | 7,939,251 | - | - |
| Nongovernmental grants and contracts | 87,933,671 | 95,465,965 | 125,000 | - |
| Sales and services of educational activities | 64,220,662 | 59,259,113 | 8,353,040 | 10,614,767 |
| Auxiliary enterprises | - | - | - | - |
| Housing revenues (revenues are pledged as security for bonds) | 46,048,115 | 41,805,021 | - | - |
| Parking revenues (revenues are pledged as security for bonds) | 4,033,747 | 3,969,397 | - | - |
| Student health revenues | 7,148,696 | 6,846,639 | - | - |
| Child care center | 1,888,438 | 1,894,580 | - | - |
| Other auxiliary revenues | 274,449 | 74,106 | - | - |
| Interest earned on loans to students | 403,554 | 268,485 | - | - |
| Other operating revenues | 20,358,352 | 18,963,812 | 4,390,586 | 1,969,575 |
| Contributions | 20,541,054 | 18,323,721 | 11,000 | 11,000 |
| Total Operating Revenues | <u>590,178,290</u> | <u>553,061,468</u> | <u>15,661,988</u> | <u>15,398,532</u> |
| Operating Expenses: | | | | |
| Instruction | 217,527,019 | 213,093,123 | 796,972 | 895,793 |
| Research | 148,003,504 | 142,925,356 | 2,775,521 | 2,187,152 |
| Public Service | 76,210,255 | 74,296,112 | - | 895,792 |
| Academic Support | 49,719,813 | 46,474,282 | - | - |
| Student Service | 75,725,892 | 70,503,234 | 3,481,812 | 3,453,977 |
| Institutional Support | 33,442,081 | 33,080,369 | 2,720,992 | 2,530,033 |
| Operations & Maintenance of Plant | 44,886,179 | 48,395,774 | 310,772 | 401,008 |
| Depreciation | 45,530,333 | 41,135,633 | 331,510 | 344,394 |
| Scholarships & Fellowships | 28,542,631 | 27,811,497 | - | - |
| Auxiliary Enterprises | 43,224,820 | 43,703,137 | - | - |
| Other Expenses | 879,424 | 3,258,156 | 3,141,672 | 3,439,485 |
| Total Operating Expenses | <u>763,691,951</u> | <u>744,676,673</u> | <u>13,559,251</u> | <u>14,147,634</u> |
| Operating Income (Loss) | <u>(173,513,661)</u> | <u>(191,615,205)</u> | <u>2,102,737</u> | <u>1,250,898</u> |
| Nonoperating Revenues (Expenses) | | | | |
| State appropriations | 166,918,426 | 162,131,002 | - | - |
| Local appropriations | 5,477,000 | 5,307,800 | - | - |
| Federal grants and contracts | 20,147,841 | 20,345,377 | - | - |
| Other nonoperating revenue | 2,285,546 | 898,765 | - | - |
| Gifts | - | - | - | - |
| Investment income | 609,317 | 3,835,549 | 132,830 | 530,795 |
| Interest expense | (13,935,758) | (15,667,651) | - | - |
| Gain/Loss on disposal of assets | (14,415,048) | (19,016,910) | (20,642) | - |
| Student fees for capital projects | 3,901,682 | 3,152,726 | - | - |
| Net Nonoperating Revenues | <u>170,989,006</u> | <u>160,986,658</u> | <u>112,188</u> | <u>530,795</u> |
| Income (Loss) Before Other Revenues, Expenses, Gains and Losses | <u>(2,524,655)</u> | <u>(30,628,547)</u> | <u>2,214,925</u> | <u>1,781,693</u> |
| Capital appropriations | 10,465,000 | 11,465,000 | - | - |
| Capital grants and gifts | 44,702,396 | 70,672,339 | - | - |
| Additions to permanent endowment | 2,447,775 | 237,549 | - | - |
| Other additions/deductions, net | (1,734,438) | (1,567,593) | 1,600,000 | - |
| Increase (Decrease) in Net Position | <u>53,356,078</u> | <u>50,178,748</u> | <u>3,814,925</u> | <u>1,781,693</u> |
| Net Position | | | | |
| Net Position -- Beginning of Year, as previously reported | 662,686,586 | 610,628,380 | 15,009,312 | 13,227,619 |
| Prior Period Restatement | (67,928,946) | 1,879,458 | - | - |
| Net Position -- Beginning of Year, as restated | <u>594,757,640</u> | <u>612,507,838</u> | <u>15,009,312</u> | <u>13,227,619</u> |
| Net Position -- End of Year | <u>\$ 648,113,718</u> | <u>\$ 662,686,586</u> | <u>\$ 18,824,237</u> | <u>\$ 15,009,312</u> |

Kansas State University
Statement of Cash Flows
For the Year Ended June 30, 2015

| | University Funds | |
|---|-----------------------|-----------------------|
| | 2015 | 2014 |
| Cash Flows from Operating Activities | | |
| Tuition and fees | \$ 267,499,980 | \$ 250,831,579 |
| Endowment income | 100,000 | 100,000 |
| Sales and services of educational activities | 65,732,508 | 59,212,910 |
| Auxiliary enterprise charges | | |
| Housing | 45,703,483 | 41,320,839 |
| Parking | 4,002,151 | 3,981,322 |
| Student Health | 7,117,262 | 6,835,556 |
| Child Care Center | 1,888,438 | 1,894,580 |
| Other | 272,181 | 73,987 |
| Grants and contracts | 185,201,005 | 162,237,896 |
| Federal appropriations | 13,452,457 | 12,143,887 |
| Payments to suppliers | (285,511,322) | (287,502,322) |
| Compensation & benefits | (490,885,904) | (461,531,819) |
| Loans issued to students and employees | (4,168,733) | (3,625,361) |
| Collections on loans issued to students and employees | 4,061,778 | 3,112,254 |
| Other receipts (payments) | 57,803,343 | 76,189,112 |
| Net Cash Flows from Operating Activities | (127,731,373) | (134,725,580) |
| Cash Flows from Noncapital Financing Activities | | |
| State appropriations | 166,918,036 | 160,197,488 |
| Local appropriations | 25,694,924 | 5,307,800 |
| Federal/State student aid | 126,137,403 | 19,978,785 |
| Direct lending receipts | (126,164,107) | 125,951,939 |
| Direct lending payments | (81,533) | (124,809,758) |
| Funds held for others | 1,963,220 | 87,872 |
| Other | - | 898,765 |
| Net Cash Flows from Noncapital Financing Activities | 194,467,943 | 187,612,891 |
| Cash Flows from Capital and Related Financing Activities | | |
| Proceeds from capital debt | 61,865,000 | 133,550,000 |
| Capital appropriations | 9,504,219 | 6,192,170 |
| Capital grants and gifts | 15,278,103 | 79,852,031 |
| Student fees for capital projects | 17,946,907 | 3,144,982 |
| Purchases of capital assets | (145,758,045) | (133,521,036) |
| Principal paid on capital debt and leases | (13,707,132) | (11,344,080) |
| Principal paid by revenue bond defeasance | (9,040,000) | (50,230,000) |
| Interest paid on capital debt and leases | (15,806,905) | (13,889,444) |
| Other | 1,295,400 | 1,820,355 |
| Net Cash Flows from Capital and Related Financing Activities | (78,422,453) | 15,574,978 |
| Cash Flows from Investing Activities | | |
| Investment income | 1,080,160 | 1,090,352 |
| Purchase/Redemption of investments | 24,251,061 | (4,311,821) |
| Net Cash Flows from Investing Activities | 25,331,221 | (3,221,469) |
| Net change in cash and cash equivalents | 13,645,338 | 65,240,820 |
| Cash and cash equivalents -- beginning of year | 333,054,505 | 267,813,685 |
| Cash and cash equivalents -- end of year | <u>\$ 346,699,843</u> | <u>\$ 333,054,505</u> |

Kansas State University
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2015

| | University Funds | |
|---|------------------|------------------|
| | 2015 | 2014 |
| Reconciliation | | |
| Operating income (loss)---SRECNA | \$ (173,513,661) | \$ (191,615,205) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation expense | 45,530,333 | 41,135,633 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (2,626,352) | (1,790,316) |
| Loans to students, net | 106,955 | 513,107 |
| Inventories | (815,306) | 2,354,200 |
| Prepaid expenses | (276,031) | 81,069 |
| Accounts payable and accrued liabilities | 4,138,303 | 13,602,911 |
| Deferred revenue | (922,005) | 203,542 |
| Accrued compensated absences | 1,054,408 | 789,479 |
| Pension contributions | (408,017) | - |
| Net cash used in operating activities---Cash Flow | \$ (127,731,373) | \$ (134,725,580) |

Kansas State University Foundation
Consolidated Statements of Financial Position
June 30, 2015 and 2014

Assets

| | 2015 | 2014 |
|--|---------------------------|---------------------------|
| Cash and cash equivalents | \$ 80,316,007 | \$ 120,335,931 |
| Investments | 673,967,565 | 624,511,398 |
| Pledges receivable – net of allowance and discounts | 63,261,091 | 61,203,944 |
| Receivables from estates | 2,622,338 | 4,138,841 |
| Loans receivable | 230,603 | 276,086 |
| Property and equipment, net of accumulated depreciation; 2015 - \$2,641,915, 2014 - \$2,654,453 | 1,624,345 | 1,356,228 |
| Golf Course property and equipment, net of accumulated depreciation; 2015 - \$2,317,184, 2014 - \$1,862,173 | 8,043,680 | 7,963,521 |
| Cash surrender value of life insurance policies | 5,556,658 | 5,002,855 |
| Other assets and accrued investment income | <u>8,511,213</u> | <u>5,920,978</u> |
| Total assets | <u>\$ 844,133,500</u> | <u>\$ 830,709,782</u> |

Liabilities and Net Assets

Liabilities

| | | |
|--|-----------------------|-----------------------|
| Accounts payable, deposits and other liabilities | \$ 16,097,451 | \$ 3,946,101 |
| Accrued liabilities | 1,819,800 | 1,806,610 |
| Assets held for others | 11,383,291 | 11,371,082 |
| Unitrust and annuity liabilities | 18,459,316 | 20,113,142 |
| Long-term debt | <u>19,885,199</u> | <u>10,788,535</u> |
| Total liabilities | <u>67,645,057</u> | <u>48,025,470</u> |

Net Assets

| | | |
|--------------------------------------|---------------------------|---------------------------|
| Unrestricted net assets | 85,168,758 | 91,386,321 |
| Temporarily restricted net assets | 343,751,455 | 357,984,839 |
| Permanently restricted net assets | <u>347,568,230</u> | <u>333,313,152</u> |
| Total net assets | <u>776,488,443</u> | <u>782,684,312</u> |
| Total liabilities and net assets | <u>\$ 844,133,500</u> | <u>\$ 830,709,782</u> |

Kansas State University Foundation
Consolidated Statement of Activities
Year Ended June 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|----------------------|---------------------------|---------------------------|-----------------------|
| Revenues, Gains and Other Support | | | | |
| Contributions | \$ 2,415,523 | \$ 83,233,263 | \$ 15,036,974 | \$ 100,685,760 |
| Provision for bad debts | (50) | (505,483) | (193,872) | (699,405) |
| Net contribution revenue, less provision for bad debts | <u>2,415,473</u> | <u>82,727,780</u> | <u>14,843,102</u> | <u>99,986,355</u> |
| Investment income (loss), net | (3,683,532) | (281,917) | 227,812 | (3,737,637) |
| Net realized and unrealized gains on investments | 890,305 | 140,262 | 1,287,589 | 2,318,156 |
| Other support | | | | |
| Operational service charges, management fees and other | 14,324,972 | (37,678) | - | 14,287,294 |
| Receipts for grants, research, supplies, travel and other University departmental activities and funding allotments, etc. | 42,151 | 3,747,163 | 745 | 3,790,059 |
| Actuarial gains (losses) on unitrusts and annuity obligations | - | (1,400) | (137,526) | (138,926) |
| Net assets released from restrictions and change in donor designation | <u>102,494,238</u> | <u>(100,527,594)</u> | <u>(1,966,644)</u> | <u>-</u> |
| Total revenues, gains and other support | <u>116,483,607</u> | <u>(14,233,384)</u> | <u>14,255,078</u> | <u>116,505,301</u> |
| Expenses and Support | | | | |
| Direct University support | | | | |
| Scholarships and other student awards | 13,590,903 | - | - | 13,590,903 |
| Academic | 12,353,648 | - | - | 12,353,648 |
| Administrative – Faculty and student support | 39,782,471 | - | - | 39,782,471 |
| Capital improvements | 41,286,597 | - | - | 41,286,597 |
| Subtotal | <u>107,013,619</u> | <u>-</u> | <u>-</u> | <u>107,013,619</u> |
| Investment – loan interest expense and write-off | 517,967 | - | - | 517,967 |
| Foundation administration | <u>15,169,584</u> | <u>-</u> | <u>-</u> | <u>15,169,584</u> |
| Total expenses and support | <u>122,701,170</u> | <u>-</u> | <u>-</u> | <u>122,701,170</u> |
| Change in Net Assets | <u>(6,217,563)</u> | <u>(14,233,384)</u> | <u>14,255,078</u> | <u>(6,195,869)</u> |
| Net Assets, Beginning of Year | <u>91,386,321</u> | <u>357,984,839</u> | <u>333,313,152</u> | <u>782,684,312</u> |
| Net Assets, End of Year | <u>\$ 85,168,758</u> | <u>\$ 343,751,455</u> | <u>\$ 347,568,230</u> | <u>\$ 776,488,443</u> |

Kansas State University Foundation
Consolidated Statement of Activities
Year Ended June 30, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-----------------------------|------------------------------|------------------------------|------------------------------|
| Revenues, Gains and Other Support | | | | |
| Contributions | \$ 3,036,207 | \$ 122,299,422 | \$ 48,334,798 | \$ 173,670,427 |
| Provision for bad debts | (24) | (601,576) | (437,392) | (1,038,992) |
| Net contribution revenue, less provision for bad debts | <u>3,036,183</u> | <u>121,697,846</u> | <u>47,897,406</u> | <u>172,631,435</u> |
| Investment income (loss) | (2,801,063) | (273,081) | 184,329 | (2,889,815) |
| Net realized and unrealized gains on investments | 23,508,150 | 54,228,365 | 1,121,406 | 78,857,921 |
| Other support | | | | |
| Operational service charges, management fees and other | 12,422,571 | (23,797) | - | 12,398,774 |
| Receipts for grants, research, supplies, travel and other University departmental activities and funding allotments, etc. | 351,618 | 4,020,509 | 3,593 | 4,375,720 |
| Actuarial gains (losses) on unitrusts and annuity obligations | - | (578,148) | 4,070,597 | 3,492,449 |
| Net assets released from restrictions and change in donor designation | <u>69,895,171</u> | <u>(69,646,975)</u> | <u>(248,196)</u> | <u>-</u> |
| Total revenues, gains and other support | <u>106,412,630</u> | <u>109,424,719</u> | <u>53,029,135</u> | <u>268,866,484</u> |
| Expenses and Support | | | | |
| Direct University support | | | | |
| Scholarships and other student awards | 13,579,074 | - | - | 13,579,074 |
| Academic | 11,358,354 | - | - | 11,358,354 |
| Administrative – Faculty and student support | 42,541,939 | - | - | 42,541,939 |
| Capital improvements | 6,008,378 | - | - | 6,008,378 |
| Subtotal | <u>73,487,745</u> | <u>-</u> | <u>-</u> | <u>73,487,745</u> |
| Investment – loan interest expense and write-off | 1,118,221 | - | - | 1,118,221 |
| Foundation administration and fundraising | <u>12,242,210</u> | <u>-</u> | <u>-</u> | <u>12,242,210</u> |
| Total expenses and support | <u>86,848,176</u> | <u>-</u> | <u>-</u> | <u>86,848,176</u> |
| Change in Net Assets | | | | |
| | 19,564,454 | 109,424,719 | 53,029,135 | 182,018,308 |
| Net Assets, Beginning of Year | <u>71,821,867</u> | <u>248,560,120</u> | <u>280,284,017</u> | <u>600,666,004</u> |
| Net Assets, End of Year | <u><u>\$ 91,386,321</u></u> | <u><u>\$ 357,984,839</u></u> | <u><u>\$ 333,313,152</u></u> | <u><u>\$ 782,684,312</u></u> |

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

Note 1 - Organization and Summary of Significant Accounting Policies

Organization. Kansas State University (University) 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, for financial reporting purposes, the University is included in the financial report of the State of Kansas.

The University 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 Technology & Aviation.

Other major operating units of the University are the Agricultural Experiment Station and a statewide Cooperative Extension Service. The main campus covers 668 acres in the cities of Manhattan and Salina, Kansas. Additional University sites include 18,000 acres of the Agricultural Experiment Station (AES) located in research centers at Hays, Garden City, Colby, and Parsons and 8,600 acres in the Konza Prairie Research Natural Area, jointly operated by the AES and the Division of Biology.

Financial Reporting Entity. As required by the accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB), these financial statements present the financial position and financial activities of the University and its component units.

Blended Component Units. The following entities are legally separate from the University, but are so intertwined with the University that they are, in substance, part of the University.

K-State Olathe Innovation Campus, Inc. is a Kansas 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.

Universal K-State, Inc. is a not-for-profit corporation under the laws of the State of Kansas. Support is provided exclusively to Kansas State University to promote, encourage and aid development of non-patentable intellectual property and to provide the means by which such intellectual property may be developed, applied and protected to its greatest advantage and that of the University and the public.

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 the University.

Discretely Presented Component Units. The following entities are legally separate from the University and based on the nature and significance of their relationship to the University are discretely presented.

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

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

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 their satellite facilities for the Veterinary Medical Teaching Hospital of Kansas State University.

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. KSURF operates under a December 31 fiscal year.

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, it reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement Accounting Standards Codification (ASC) Topic 958, *Not-For-Profit Entities*. Due to the differences between the University's and the Foundation's Generally Accepted Accounting Principles (GAAP) reporting models, the Foundation's financial statements are separately presented following the University's statements, with no modifications. A complete copy of their audited financial statements, including notes, is available on their website.

Basis of Accounting. For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University'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, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments. The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Position.

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 the University'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, 2015

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, the University'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.

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.

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.

Note – The capitalization unit cost threshold and estimated useful lives used by the blended component units for equipment and building improvements vary slightly from the University's policy. The financial impact of these variations is considered to be immaterial to the financial statements as a whole.

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 transactions of the consumption or acquisition of net position in one period that are applicable to future periods. The University has deferred outflows related to debt defeasance, which are amortized over the remaining life of the debt refunded. The University has deferred outflows and deferred inflows related to the pension plan. These items are reported separately from assets and liabilities.

Net Position. The University'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 – nonexpendable: Restricted nonexpendable 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.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

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

Unrestricted net position: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments. These resources are used for transactions relating to the educational and general operations of the University, 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. The University 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 the University's exempt purpose may be subject to federal income tax under Internal Revenue Code Section 511(a)(2)(B).

Classification of Revenues. The University has classified its revenues as either operating or nonoperating 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.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, contributions, certain federal and state grants, and other revenue sources that are defined as nonoperating 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 the University, 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 nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Pensions. For the year ended June 30, 2015, the University implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pension* 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 of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kansas Public Employees Retirement System (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.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

Note 2 – Deposits and Investments

A summary of the University's deposits and investments at June 30 is as follows:

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Cash deposits with State Treasury | \$292,678,324 | \$277,069,305 |
| Cash deposits with financial institutions | 54,021,519 | 55,985,200 |
| Short Term Investment | 1,983,918 | 1,492,482 |
| Guaranteed investment contracts | 1,099,342 | 1,296,953 |
| Investments at KSU Foundation | 26,887,271 | 39,421,180 |
| Other investments | <u>-</u> | <u>15,345,933</u> |
| | <u>\$376,670,374</u> | <u>\$390,611,053</u> |

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

| | 2015 | 2014 |
|--|----------------------|----------------------|
| Cash and cash equivalents (current) | \$333,839,220 | \$325,548,596 |
| Investments (current) | 7,359,235 | 5,583,187 |
| Restricted cash and cash equivalents (non-current) | 12,860,623 | 7,505,909 |
| Investments (non-current) | <u>22,611,296</u> | <u>51,973,361</u> |
| | <u>\$376,670,374</u> | <u>\$390,611,053</u> |

Deposits.

The carrying amount of the University's cash and cash equivalents with the State Treasurer and other financial institutions at June 30, 2015 were \$346,699,843. The University's deposits with the State Treasurer are pooled with the funds of other State Agencies and then, in accordance with statutory limitations, placed in short-term investments with the exception of the bond funds. All bond proceeds are invested in conjunction with specifications stated in the bond resolutions.

State law requires the University 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 exceptions to this are any funds maintained in the University's imprest fund, organizational safekeeping, and any funds held by external entities on behalf of the University.

Cash balances maintained by the State Treasurer are pooled and are 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.

The majority of deposit balances not maintained by the State Treasurer are covered by FDIC or collateralized. The University 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, 2015

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 the University's revenue bonds, state statutes permit cash balances to be invested as permitted by bond documents and bond covenants. KDFA manages the University'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

The Kansas State University Foundation (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.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

The Foundation is also the investing agent for the 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) rebalancing 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. The University 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 structuring the investment portfolio so that securities mature to meet cash requirement 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 KDFA, due to the tax-exempt status of the bonds, it is generally the practice of KDFA and the University 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, KDFA 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, 2015, the University had investments with the following maturities:

| Investment Type | Fair Value | Less Than 1 Year | 1 - 5 Years | 6 - 10 Years | More Than 10 Years |
|---|---------------------|------------------|-------------|--------------|--------------------|
| Investment Agreements | 1,099,342 | | | | \$ 1,099,342 |
| Short Term Investments | 1,983,918 | 1,983,918 | | | |
| | \$ 3,083,260 | \$ 1,983,918 | \$ - | \$ - | \$ 1,099,342 |
| Investments not subject to maturity dates: | | | | | |
| KSU Foundation Investment Pool | \$26,887,271 | | | | |
| Other Long Term Investments | | | | | |
| Grand Total | \$29,970,531 | | | | |

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the University. The University 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. The investments are unrated and certain investments have an underlying collateral agreement.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. The University'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.

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

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. 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.

Note 3 – Accounts Receivable

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

| | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
|--|----------------------|----------------------|
| Student tuition and fees | \$13,499,613 | \$13,078,578 |
| Auxiliary enterprises and other operating activities | 1,086,893 | 1,694,864 |
| Federal, state, and private grants and contracts | 16,410,093 | 13,284,226 |
| Interest | 14,470 | 49,280 |
| Other | 13,041,061 | 12,308,562 |
| Pledges | <u>23,389,693</u> | <u>21,179,257</u> |
| | <u>\$67,441,823</u> | <u>\$61,594,767</u> |
| Less allowance for doubtful accounts | 907,143 | 1,807,433 |
| Net accounts receivable | <u>\$66,534,680</u> | <u>\$59,787,334</u> |

Note 4 – Loans to Students

Student loans made through the Federal Perkins Loan Program and the Health Profession Student Loan Program comprise substantially all of the loans to students at June 30, 2015 and 2014. 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. The federal government reimburses the University for a portion of amounts cancelled under these provisions.

As the University 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. The University 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, 2015 and 2014, the allowance for uncollectible loans was estimated to be \$1,687,795 and \$1,235,032, respectively.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

Note 5 – Capital Assets

Capital asset activity for the University for the year ended June 30, 2015 is summarized as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending Balance</u> |
|--|--------------------------|-------------------|--------------------|-----------------------|
| Land and Improvements | \$ 12,146,200 | \$ 111,353 | \$ - | \$ 12,257,553 |
| Art Collections | 2,812,510 | - | 28,000 | 2,784,510 |
| Construction in Progress | 18,583,710 | 91,639,602 | 20,501,545 | 89,721,767 |
| Buildings & Improvements | 858,488,749 | 25,552,722 | 13,867,919 | 870,173,552 |
| Land Improvements | 28,911,189 | 879,287 | 1,225,200 | 28,565,276 |
| Infrastructure | 50,209,803 | 3,626,773 | 4,040,384 | 49,796,192 |
| Intangibles | 20,622,565 | 1,511,990 | 73,961 | 22,060,594 |
| Equipment and Furnishings | 179,185,745 | 14,414,104 | 4,526,795 | 189,073,054 |
| Vehicles | 21,136,868 | 1,733,949 | 395,611 | 22,475,206 |
| IT Info Processing Equipment | 1,919,834 | 1,627,781 | 23,635 | 3,523,980 |
| Total Capital Assets | 1,194,017,173 | 141,097,561 | 44,683,050 | 1,290,431,684 |
| Less: Accumulated Depreciation | | | | |
| Buildings & Improvements | 327,255,969 | 22,990,872 | 3,789,111 | 346,457,730 |
| Land Improvements | 14,398,450 | 928,473 | 720,483 | 14,606,440 |
| Infrastructure | 8,981,628 | 1,993,208 | 529,846 | 10,444,990 |
| Intangibles | 8,573,962 | 2,050,339 | 40,950 | 10,583,351 |
| Equipment and Furnishings | 129,220,871 | 11,693,492 | 3,680,673 | 137,233,690 |
| Vehicles | 16,817,002 | 1,594,013 | 386,011 | 18,025,004 |
| IT Info Processing Equipment | 655,721 | 908,705 | 15,757 | 1,548,669 |
| Total Depreciation | 505,903,603 | 42,159,102 | 9,162,831 | 538,899,874 |
| Capital Assets, net | \$688,113,570 | \$ 98,938,459 | \$ 35,520,219 | \$751,531,810 |
| K-State Olathe Innovation Campus, Inc. | | | | 32,083,627 |
| K-State Diagnostic and Analytical Services, Inc. | | | | 741,238 |
| K-State Athletics, Inc. | | | | 75,438,555 |
| | | | | \$859,795,230 |

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

Capital asset activity for the University for the year ended June 30, 2014 is summarized as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending Balance</u> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| Land and Improvements | \$ 9,948,136 | \$ 2,198,064 | \$ - | \$ 12,146,200 |
| Art Collections | 2,727,510 | 85,000 | - | 2,812,510 |
| Construction in Progress | 84,762,268 | 69,634,340 | 135,812,898 | 18,583,710 |
| Buildings & Improvements | 727,412,991 | 131,263,372 | 187,614 | 858,488,749 |
| Land Improvements | 26,238,849 | 2,748,111 | 75,771 | 28,911,189 |
| Infrastructure | 31,109,870 | 19,105,883 | 5,950 | 50,209,803 |
| Intangibles | 16,927,974 | 3,811,333 | 116,742 | 20,622,565 |
| Equipment and Furnishings | 171,240,158 | 14,623,836 | 6,678,249 | 179,185,745 |
| Vehicles | 22,387,682 | 1,270,255 | 2,521,069 | 21,136,868 |
| IT Info Processing Equipment | 952,533 | 967,301 | - | 1,919,834 |
| Total Capital Assets | 1,093,707,971 | 245,707,495 | 145,398,293 | 1,194,017,173 |
| Less: Accumulated Depreciation | | | | |
| Buildings & Improvements | 307,111,492 | 20,202,397 | 57,920 | 327,255,969 |
| Land Improvements | 13,464,568 | 986,177 | 52,295 | 14,398,450 |
| Infrastructure | 7,428,497 | 1,559,105 | 5,974 | 8,981,628 |
| Intangibles | 6,891,312 | 1,762,425 | 79,775 | 8,573,962 |
| Equipment and Furnishings | 123,312,402 | 11,493,736 | 5,585,267 | 129,220,871 |
| Vehicles | 17,750,594 | 1,511,243 | 2,444,835 | 16,817,002 |
| IT Info Processing Equipment | 156,924 | 498,797 | - | 655,721 |
| Total Depreciation | 476,115,789 | 38,013,880 | 8,226,066 | 505,903,603 |
| Capital Assets, net | \$617,592,182 | \$207,693,615 | \$137,172,227 | \$688,113,570 |
| K-State Olathe Innovation Campus, Inc. | | | | 33,365,590 |
| K-State Diagnostic and Analytical Services, Inc. | | | | 781,863 |
| K-State Athletics, Inc. | | | | 8,557,199 |
| | | | | \$730,818,222 |

The University elected not to capitalize its library book collections. These collections adhere to the University'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, 2015

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, 2015</u> | <u>June 30, 2014</u> |
|----------------------------|----------------------------|----------------------------|
| Tuition and fees | \$ 9,646,913 | \$10,801,490 |
| Grants and contracts | 19,698,454 | 20,491,533 |
| Athletic tickets and other | <u>11,771,587</u> | <u>10,816,349</u> |
| | <u><u>\$41,116,954</u></u> | <u><u>\$42,109,372</u></u> |

Note 7 – Changes in Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2015 consists of the following:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---------------------------------------|-----------------------------|------------------------------|-----------------------------|-----------------------------|----------------------------|
| Accrued compensated absences | \$ 20,477,655 | \$ 21,531,751 | \$ 20,477,655 | \$ 21,531,751 | \$18,600,000 |
| Accrued other postemployment benefits | 18,812,000 | 1,743,000 | - | 20,555,000 | - |
| Capital lease payable | 3,263,433 | 147,370 | 1,011,172 | 2,399,631 | 821,534 |
| Other loan payable | 2,043,264 | - | 136,218 | 1,907,046 | 136,218 |
| Revenue bonds payable | 406,620,970 | 65,555,513 | 22,776,875 | 449,399,608 | 15,032,214 |
| Other liabilities | 33,243 | 1,052,024 | 33,243 | 1,052,024 | - |
| Net pension liability | - | 71,947,881 | - | 71,947,881 | - |
| Total Noncurrent Liabilities | <u><u>\$451,250,565</u></u> | <u><u>\$ 161,977,539</u></u> | <u><u>\$ 44,435,163</u></u> | <u><u>\$568,792,941</u></u> | <u><u>\$34,589,966</u></u> |

Noncurrent liability activity for the year ended June 30, 2014 consists of the following:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---------------------------------------|-----------------------------|------------------------------|-----------------------------|-----------------------------|----------------------------|
| Accrued compensated absences | \$ 19,698,673 | \$ 4,043,485 | \$ 3,264,503 | \$ 20,477,655 | \$17,140,137 |
| Accrued other postemployment benefits | 16,485,000 | 2,327,000 | - | 18,812,000 | - |
| Capital lease payable | 3,633,038 | 1,017,743 | 1,387,348 | 3,263,433 | 798,128 |
| Other loan payable | 2,179,482 | - | 136,218 | 2,043,264 | 136,218 |
| Revenue bonds payable | 324,248,589 | 143,251,563 | 60,879,182 | 406,620,970 | 13,707,991 |
| Other liabilities | 353,299 | 33,243 | 353,299 | 33,243 | - |
| Total Noncurrent Liabilities | <u><u>\$366,598,081</u></u> | <u><u>\$ 150,673,034</u></u> | <u><u>\$ 66,020,550</u></u> | <u><u>\$451,250,565</u></u> | <u><u>\$31,782,474</u></u> |

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

Note 8 – Revenue Bonds Outstanding

Revenue bonds payable consisted of the following at June 30, 2015:

| | <u>Principal Outstanding 6/30/15</u> | <u>Principal Outstanding 6/30/14</u> |
|--|--|--|
| 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 the University's unrestricted revenues. | \$ 53,650,000 | - |
| 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 the University's unrestricted revenues. | \$ 800,000 | - |
| 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 the University's unrestricted revenues. | \$ 7,415,000 | - |
| 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 the University's unrestricted revenues and KSU Kan-Grow Revenues. | \$ 17,605,000 | \$ 18,615,000 |
| 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 the University's unrestricted revenues. | \$114,675,000 | \$114,935,000 |
| 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 the University's unrestricted revenues. | \$15,960,000 | \$ 16,590,000 |
| 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 the University's unrestricted revenues. | \$11,245,000 | \$ 12,315,000 |

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

| | Principal Outstanding <u>6/30/15</u> | Principal Outstanding <u>6/30/14</u> |
|--|--|--|
| 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 the University's unrestricted revenues. | \$23,025,000 | \$23,110,000 |
| Kansas Development Finance Authority Revenue Bonds-Series 2012B-1 (The K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2012 in the original amount of \$30,035,000. Due in annual installments with final maturity on 7/1/32. Interest ranging from 3.0% to 5.25% payable annually, collateralized by the pledge of revenues of the corporation. | \$30,035,000 | \$30,035,000 |
| Kansas Development Finance Authority Revenue Bonds-Series 2012B-2 (The 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. | \$22,695,000 | \$23,320,000 |
| 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 the University's unrestricted revenues. | \$ 3,410,000 | \$ 3,500,000 |
| 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 the University's unrestricted revenues. | \$11,090,000 | \$11,370,000 |
| Kansas Development Finance Authority Revenue Bonds-Series 2011A-1 (The K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2011 in the original amount of \$21,790,000. Due in annual installments with final maturity on 7/1/31. Interest ranging from 2.0% to 5.25% payable semi-annually, collateralized by the pledge of revenues of the corporation. | \$17,225,000 | \$18,770,000 |
| Kansas Development Finance Authority Revenue Bonds-Series 2011A-2 (The K-State Athletics, Inc. of Kansas State University Project) issued on March 1, 2011 in the original amount of \$3,210,000. Due in annual installments with final maturity on 7/1/14. Interest ranging from 0.7% to 2.25% payable semi-annually, collateralized by the pledge of revenues of the corporation. | - | \$ 1,035,000 |

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Notes to Financial Statements
For the Year Ended June 30, 2015

| | Principal Outstanding <u>6/30/15</u> | Principal Outstanding <u>6/30/14</u> |
|---|--|--|
| 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 the University's unrestricted revenues. | \$14,395,000 | \$15,535,000 |
| 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 the University's unrestricted revenues. | \$ 2,345,000 | \$ 2,345,000 |
| Kansas Development Finance Authority Revenue Bonds-Series 2010U-2 (The Kansas Board of Regents – Kansas State University Project – Ackert Hall Refunding) issued on December 1, 2010 in the original amount of \$655,000. Due in annual installments with final maturity on 5/1/15. Interest at 2.0% payable semi-annually, collateralized by a pledge of the University's unrestricted revenues. | - | \$ 140,000 |
| 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 the University's unrestricted revenues. | \$ 1,760,000 | \$ 2,315,000 |
| Kansas Development Finance Authority Refunding Revenue Bonds-Series 2010H (The Kansas Board of Regents – Kansas State University Farrell Library Expansion Project) issued on June 29, 2010 in the original amount of \$1,530,000. Due in annual installments with final maturity on 10/1/15. Interest at 2.0% payable semi-annually, collateralized by a pledge of student fees. | \$ 250,000 | \$ 515,000 |
| 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. | \$20,560,000 | \$ 21,065,000 |
| 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. | \$28,380,000 | \$ 28,935,000 |

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

| | Principal Outstanding <u>6/30/15</u> | Principal Outstanding <u>6/30/14</u> |
|--|--|--|
| 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. | \$ 5,795,000 | \$ 5,915,000 |
| 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. | \$ 1,600,000 | \$ 1,600,000 |
| Kansas Development Finance Authority Revenue Bonds-Series 2007H (The Kansas Board of Regents – Kansas State University Parking System) issued on August 1, 2007 in the original amount of \$17,855,000. Due in annual installments with final maturity on 5/1/37. Interest ranging from 3.60% to 4.50% payable semi-annually, collateralized by a pledge of parking operation revenues. | \$15,225,000 | \$ 15,645,000 |
| Kansas Development Finance Authority Revenue Bonds-Series 2007A (The Kansas Board of Regents – Kansas State University Housing System, Manhattan Campus) issued on February 1, 2007 in the original amount of \$27,750,000. Due in annual installments with final maturity on 4/1/37. Interest ranging from 3.75% to 4.39% payable semi-annually, collateralized by a pledge of housing revenues. | - | \$ 8,650,000 |
| 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. | \$ 8,875,000 | \$ 9,920,000 |
| Kansas Development Finance Authority Revenue Bonds-Series 2005A (The Kansas Board of Regents – Kansas State University Housing System, Manhattan Campus) issued on February 1, 2005 in the original amount of \$44,535,000. Due in annual installments with final maturity on 4/1/35. Interest ranging from 3.0% to 5.0% payable semi-annually, collateralized by a pledge of housing revenues. | - | \$ 2,125,000 |
| Kansas Development Finance Authority Revenue Bonds-Series 2002E (The K-State Athletics, Inc. of Kansas State University Project) issued 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. | \$ 7,575,000 | \$ 7,575,000 |

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

Note 9 – Revenue Bonds Maturity Schedule

Future debt service requirements for all bonds outstanding at June 30, 2015 are as follows:

| <u>Year Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|-----------------------|-----------------------|----------------------|
| 2016 | \$ 14,610,000 | \$ 18,173,375 | \$ 32,783,375 |
| 2017 | 16,095,000 | 17,652,438 | 33,747,438 |
| 2018 | 16,640,000 | 17,073,241 | 33,713,241 |
| 2019 | 16,640,000 | 16,424,485 | 33,064,485 |
| 2020 | 17,285,000 | 15,735,421 | 33,020,421 |
| 2021-2025 | 94,920,000 | 66,504,923 | 161,424,923 |
| 2026-2030 | 107,330,000 | 44,690,841 | 152,020,841 |
| 2031-2035 | 94,430,000 | 22,756,223 | 117,186,223 |
| 2036-2040 | 41,940,000 | 8,437,466 | 50,377,466 |
| 2041-2044 | 15,700,000 | 1,549,462 | 17,249,462 |
| | | | |
| Total | <u>\$ 435,590,000</u> | <u>\$ 228,997,875</u> | <u>\$664,587,875</u> |

In April 2015, the University issued \$800,000 of Housing Projects Revenue Refunding Bonds, Series 2015B with an average interest cost of 3.8 percent. The bond proceeds, in addition to other University funds, were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments to refund \$1,035,000 of Housing System Revenue Bonds, Series 2005A. As a result, this portion of the 2005A Series bonds are considered to be defeased and the liability for those bonds is not reflected in the University's financial statements. The unamortized loss on bond refunding of \$13,645 will be amortized over the remaining life of the bonds. The advance refunding of these bonds permitted the University to realize an economic gain (the present values of the debt service payments on the old and new debt) of \$91 thousand and will reduce future aggregate debt service payments over the next 20 years by \$88 thousand.

Also in April 2015, the University issued \$7,415,000 of Housing Projects Revenue Refunding Bonds, Series 2015B with an average interest cost of 3.6 percent. The bond proceeds, in addition to other University funds, were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments to refund \$8,005,000 of Housing System Revenue Bonds, Series 2007A. As a result, this portion of the 2007A Series bonds are considered to be defeased and the liability for those bonds is not reflected in the University's financial statements. The unamortized gain on bond refunding of \$71,060 will be amortized over the remaining life of the bonds. The advance refunding of these bonds permitted the University to realize an economic gain (the present values of the debt service payments on the old and new debt) of \$1.08 million and will reduce future aggregate debt service payments over the next 22 years by \$1.56 million.

In prior years, the University 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 in the University's financial statements.

Note 10 – Loan and Lease Obligations

In December 2002, the University 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 \$84,325, with an outstanding balance at June 30, 2015 of \$177,072.

In July 2005, the University 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%. The outstanding balance at June 30, 2015 is \$616,184.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

In December 2009, the University and Bank of America, N.A. entered into a 17 year financing agreement for the purpose of funding energy conservation measures at the University. Quarterly principal and interest payments are due starting April 15, 2011 at an interest rate of 4.956%. The outstanding balance at June 30, 2015 is \$940,897.

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, 2015 is \$1,907,046.

The University is obligated for the purchase of certain equipment funded through issuance of blanket financing agreements in the amount of \$665,478 as of June 30, 2015. Payments to liquidate these obligations are scheduled as follows:

| Year Ending June 30: | Total |
|----------------------|--------------------------|
| 2016 | \$ 352,562 |
| 2017 | 182,506 |
| 2018 | <u>130,410</u> |
| | <u><u>\$ 665,478</u></u> |

Note 11 – Retirement Plans

The University 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, (formerly ING Financial Advisers). 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, 2015 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. The University contributed \$20,129,609 during fiscal year 2015 and \$18,898,892 during fiscal year 2014. Individual employees contributed \$12,825,189 during fiscal year 2015 and \$12,020,057 during fiscal year 2014.

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For the Year Ended June 30, 2015

Federal Retirement Plan

Some Extension Service employees at Kansas State University 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 up to December 31, 1987. Current FERS employees contribute 0.8% with an employer contribution rate of 13.2%. New FERS employees hired in 2013 contribute 3.1% and after 2013 contribute 4.4% with an employer contribution rate of 11.1%. FERS employees contribute at the full FICA rate. 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, 2015 and June 30, 2014, the University contributed \$613,849 and \$486,356 respectively. Individual employees contributed \$395,714 and \$259,709 for fiscal years 2015 and 2014 respectively to these plans.

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.

Note 12 – Pension Plan – Kansas Public Employees Retirement System

General Information about the Pension Plan

Plan description: The University support staff participates 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.

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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 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 chose 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 retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contributions rates. Effective July 1, 2009, KPERS has two benefit structures and contribution rates depend on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing member hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 5% of covered salary for Tier 1 member and 6% of covered salary for Tier 2 members through December 31, 2014. On January 1, 2015, Kansas law increased the KPERS member-employee contribution rate to 6% of covered salary for Tier 1 members; however, the Tier 2 member-employee contribution rate remained at 6% of covered salary. Member employee's contributions are withheld by their employer and paid to KPERS 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. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 0.85% contribution rate for the Death and Disability Program) and the statutory contribution rate was 15.12% and 10.27%, respectively, for the fiscal year ended June 30, 2014. The actuarially determined employer contribution rate was 15.41% for the fiscal year ended June 30, 2015. The statutory contribution rate was 11.27% from July 1, 2014 to December 31, 2014 and 8.65% from January 1, 2015 to June 30, 2015. Contributions to the pension plan from the University was \$5,729,682 for the year ended June 30, 2015.

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

At June 30, 2015, the University reported a liability of \$71,947,881 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, which was rolled forward to June 30, 2014. The University proportion of the net pension liability was based on the ratio of the University actual contributions to KPERS, relative to the total employer and nonemployer contributions of the State/School subgroup within KPERS for the fiscal year ended June 30, 2014. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2014 Kansas State University proportion was 1.108942%, which was a decrease of 0.015392% from its proportion measured as of June 30, 2013. At June 30, 2014 Kansas State University Police and Fire Group proportion was 0.165830%, which was a decrease of 0.015779% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the University recognized pension expense of \$5,307,800. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

| | <u>Deferred Outflows of Resources</u> | <u>Deferred inflows of Resources</u> |
|--|---|--|
| Difference between expected and actual experience | \$ 13,865 | \$ 1,678,408 |
| Net difference between projected and actual earnings on pension plan investments | - | 8,672,609 |
| Changes in proportion | - | 1,032,189 |
| University contributions subsequent to measurement date | <u>5,729,682</u> | <u>-</u> |
| Total | <u>\$ 5,743,547</u> | <u>\$ 11,383,206</u> |

\$5,729,682 reported as deferred outflows of resources related to pensions resulting from the University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2016. 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: | |
|---------------------|----------------------|
| 2016 | \$ 2,727,641 |
| 2017 | 2,727,641 |
| 2018 | 2,727,641 |
| 2019 | 2,727,641 |
| 2020 | 458,777 |
| Thereafter | - |
| Total | <u>\$ 11,369,341</u> |

Actuarial assumptions. The total pension liability in the December 31, 2013 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 12.50 percent, including inflation |
| Long-term rate of return net of investment expense, and including price inflation | 8.00 percent |

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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, 2013 valuation were based on the results of an actuarial experience study conducted for the three year period beginning December 31, 2009.

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, 2014 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------|-------------------|--|
| Global equity | 47% | 6.00% |
| Fixed income | 14 | 0.85 |
| Yield driven | 8 | 5.50 |
| Real return | 11 | 3.75 |
| Real estate | 11 | 6.65 |
| Alternatives | 8 | 9.50 |
| Short-term investments | 1 | - |
| Total | <u>100%</u> | |

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 the University 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 the University proportionate share of the net pension liability to changes in the discount rate. The following presents the University proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what the University 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%) |
|---|------------------------|----------------------------------|---------------------|
| The University proportionate share of the net pension liability | \$ 94,113,790 | \$ 71,947,881 | \$ 53,129,200 |

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

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Subsequent events. Under the budgetary allotment process for the State of Kansas, the Kansas governor has authority to reduce the approved budget for purposes of balancing the budget. For the State's fiscal year ending June 30, 2015, the KPERS employer contribution to the State/School group was reduced by \$58 million. It is unknown at the time whether this reduction will have a significant effect on the University proportionate share of the KPERS collective net pension liability, or an effect on any actuarial assumptions used by KPERS to calculate the net pension liability.

During the 2015 state legislative session, Senate Bill 228 was passed authoring the issuance of one or more series of revenue bonds to provide deposits to KPERS in a total amount not to exceed \$1 billion. The purpose of such bond issuance would be for financing a portion of the unfunded actuarial pension liability of KPERS, which would also have an affect on the collective net pension liability. Final issuance of such bonds must be approved by a resolution of the State Finance Council. As of the date of this report, no such bonds under Senate Bill 228 had been issued. The effect of any potential bond issuance on the University proportionate share of the KPERS collective net pension liability is unknown at this time.

Note 13 – Other Postemployment Healthcare Benefits

Description. As a component unit of the State of Kansas, the University 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 dependants 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, thus resulting in a liability to the University. At the State level, the accounting for the health insurance for retirees is included in the State's Self-Insurance Health fund, with the subsidy provided from the Self-Insurance Health fund.

Funding Policy. The University 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.

The University does not pay retiree benefits directly; they are paid implicitly over time through employer subsidization of active employee premiums that would be lower if retirees were not part of the experience group.

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Annual OPEB Cost and Net OPEB Obligation. The University's annual other post employment benefits (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. 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 University's annual OPEB cost for the year, the contribution to the plan, and changes in the University's net OPEB obligation.

| | |
|---|---------------------|
| Amortization of UAAL | \$ 1,312,000 |
| Normal cost (with interest) | <u>1,671,000</u> |
| Annual required contribution (ARC) | \$ 2,983,000 |
| Interest on net OPEB obligation | 724,000 |
| Adjustment to the ARC | <u>(1,068,000)</u> |
| Annual OPEB cost | \$ 2,639,000 |
| Fiscal Year 2015 Net Employer Contributions | (896,000) |
| Net OPEB obligation July 1, 2014 | <u>18,812,000</u> |
| Net OPEB obligation June 30, 2015 | <u>\$20,555,000</u> |

Schedule of Employer Contributions (for fiscal year ended)

| Fiscal Year | Annual OPEB Cost | Net Employer Contributions | Percentage Contributed | End of Year Net OPEB Obligation |
|-------------|------------------|----------------------------|------------------------|---------------------------------|
| 2013 | \$3,266,000 | 822,000 | 25% | \$16,485,000 |
| 2014 | 3,046,000 | 719,000 | 24% | 18,812,000 |
| 2015 | 2,639,000 | 896,000 | 34% | 20,555,000 |

Funded Status and Funding Progress. As of June 30, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$24,526,000. The University'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 \$24,526,000. The covered payroll (annual payroll of active employees covered by the plan) was \$351,908,000, and the ratio of the UAAL to the covered payroll was 7 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.

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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) |
|--------------------------|-------------------------------|---------------------------------------|--------------------|--------------------|---------------------|--|
| 6/30/2013 | \$0 | \$31,114,000 | \$31,114,000 | 0% | \$327,181,000 | 10% |
| 6/30/2014 | 0 | 29,645,000 | 29,645,000 | 0% | 340,888,000 | 9% |
| 6/30/2015 | 0 | 24,526,000 | 24,526,000 | 0% | 351,908,000 | 7% |

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.

In the June 30, 2015 actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. The valuation assumed annual healthcare cost trend rates of 5.0 to 6.50 percent in the first nine years and an ultimate rate of 5.0 percent in subsequent years thereafter. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results. The UAAL is being amortized over a 30 year open period in level dollar amounts.

Note 14 – Pollution Remediation

The University has implemented GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and following are the related disclosures:

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.

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Notes to Financial Statements
For the Year Ended June 30, 2015

Note 15 – Commitments and Contingencies

At June 30, 2015, the University had outstanding commitments on various construction projects and contracts totaling approximately \$143.1 million.

The University 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, 2014 University buildings are insured with a \$250,000 deductible and a maximum of \$500,000,000 per occurrence. Contents of a building are covered at 10% of the value of the building. The University, as an agency of the State of Kansas, is subject to the State of Kansas self-insurance program with regard to comprehensive general liability and personal injury insurance and is 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, 2015.

In the normal course of operations, the University 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 the University's financial position.

Note 16 – Component Unit Disclosures

Discretely Presented Component Units

The following referenced activity between the University and its discretely presented component units has been combined into one column on the University's financial statements labeled Component Units. Transactions between the University 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 is \$885,058 and Change in Net Position is \$908,540. KSUIC paid the University \$51,103 for support services during the fiscal year ending June 30, 2015. Investments held by KSUIC at fiscal year end total \$3,140,272 on the Statement of Net Position.

Kansas State University Research Foundation (KSURF) – The fiscal year for KSURF ends on December 31 of each year. As of December 31, 2014, KSURF had accounts payable to the University in the amount of \$33,413 and investments totaling \$4,038,377 on the Statement of Net Position. Operating Income on the Statement of Revenues, Expenses and Changes in Net Position for KSURF totaled \$80,172 and the Change in Net Position was \$180,029 for the fiscal year.

Kansas State University Veterinary Clinical Outreach, Inc. (KSUVCO) – Included in the Change in Net Position amount of \$2,154,346 on the June 30, 2015 Statement of Revenues, Expenses and Change in Net Position are revenues received from the University in the amount of \$400,000 and expenses paid to the University in the amount of \$139,863. Investments at fiscal year end total \$1,600,000 on the Statement of Net Position.

The K-State Union Corporation (the Union) – The Union is operated from facilities owned by the University without charge. Included in the Change in Net Position amount of \$572,010 on the June 30, 2015 Statement of Revenue, Expenses and Change in Net Position are revenues received from the University and related entities in the amount of \$4,669,221. As of June 30, 2015, the Union had accounts payable to the University and related entities in the amount of \$28,198 and accounts receivable from the University and related entities totaling \$54,700. Investments at fiscal year end total \$21,608 on the Statement of Net Position.

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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 the University, 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 the University which are not or cannot be provided through state appropriations or student fees. Due to the differences between the University's and the Foundation's Generally Accepted Accounting Principles (GAAP) reporting models, the Foundation's financial statements are separately presented following the University's statements, with no modifications.

The Foundation's endowment consists of approximately 3,500 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 GAAP, net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The following items are included in the Foundation's Net Assets as of June 30, 2015:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------------------|---------------------------|--------------------------|---------------------------|
| Donor restricted endowments | \$ (3,262,378) | \$ 19,105,921 | \$347,638,927 | \$ 363,482,470 |
| Board designated endowments | 36,143,494 | | | 36,143,494 |
| Board policy designated to address underwater endowments | 36,999,775 | | | 36,999,775 |
| Quasi and term endowments | | 83,151,761 | | 83,151,761 |
| Non-endowment funds | 12,673,534 | 39,272,494 | | 51,946,028 |
| Donor-restricted expendable gifts | | 145,694,342 | | 145,694,342 |
| Program related real estate | | 274,000 | 2,464,000 | 2,738,000 |
| Net real estate and other depreciable property | | 8,043,680 | | 8,043,680 |
| Pledges receivable | 7,279 | 57,137,309 | 6,116,503 | 63,261,091 |
| Other assets and accrued income | 4,105,516 | 2,361,489 | 2,044,208 | 8,511,213 |
| Cash surrender value | 321,338 | 3,049,821 | 2,185,499 | 5,556,658 |
| Receivables from estates | | 1,117,388 | 1,504,950 | 2,622,338 |
| Unitrust and annuity liabilities | | (4,121,790) | (14,337,526) | (18,459,316) |
| Funds held for others | | (11,334,960) | (48,331) | (11,383,291) |
| Accrued payroll liabilities | (1,819,800) | | | (1,819,800) |
| Total Net Assets | <u>\$ 85,168,758</u> | <u>\$ 343,751,455</u> | <u>\$347,568,230</u> | <u>\$ 776,488,443</u> |

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Notes to Financial Statements
For the Year Ended June 30, 2015

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, 2015 were as follows:

| | Endowment Pool | Other Investments | Total |
|---|---------------------------|---------------------------|---------------------------|
| Equity securities | \$ 12,754,477 | \$ 565,707 | \$ 13,320,184 |
| Mutual funds | 64,423,187 | 47,256,131 | 111,679,318 |
| Pooled separate funds | 146,598,780 | 8,328,067 | 154,926,847 |
| U.S. Government and agency obligations | | 4,478,540 | 4,478,540 |
| Corporate bonds and other fixed income securities | | 55,232 | 55,232 |
| Private capital | 112,883,644 | 688,403 | 113,572,047 |
| Hedge funds | 93,173,041 | 8,869,959 | 102,043,000 |
| Futures contracts | 47,453,749 | | 47,453,749 |
| Closely held common stock | | 77,445,632 | 77,445,632 |
| Real estate held for investment | | 48,950,185 | 48,950,185 |
| Other securities and investments | 42,831 | | 42,831 |
| Total Investments | <u>\$ 477,286,878</u> | <u>\$ 196,680,687</u> | <u>\$ 673,967,565</u> |

For the fiscal year ended June 30, 2015, the total return of the Endowment Pool was -0.88%.

The Foundation holds certain assets for the benefit of Kansas State University 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 the University 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 University 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.

Blended Component Units

Transactions between the University and the following blended units have been eliminated from the financial statements. All other balances and transactions are blended with those of the University 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 \$1,729,199. Payments were made to the University totaling \$1,831,801 during the fiscal year ending June 30, 2015. Revenue received from the University was \$47,581. Investments held by Olathe at fiscal year end total \$1,983,918 and accounts receivable due from the University total \$1,250 on the Statement of Net Position.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2015

Universal K-State, Inc. (Universal) – Universal is dissolved and remaining funds of \$322,326 were distributed to Kansas State University Foundation as a donation.

K-State Diagnostic and Analytical Services, Inc. (KDAS) – The Change in Net Position on the June 30, 2015 Statement of Revenues, Expenses and Changes in Net Position was \$4,745,948. Revenues received from the University totaled \$908,847 and payments to the University totaled \$5,893,742. As of June 30, 2015, KDAS had accounts receivable due from the University in the amount of \$19,871 and accounts payable due to the University in the amount of \$349.

K-State Athletics, Inc. (Athletics) – The University owns all land used by K-State Athletics, Inc. 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 \$28,800,699. Payments were made to the University and its affiliates totaling \$10,393,478 during the fiscal year ending June 30, 2015. Revenue received from the University was \$965,392. Investments held by Athletics at fiscal year end total \$22,956,128 on the Statement of Net Position. Pledges receivable, which consist of unconditional promises to give cash and other assets total \$23,389,693. These are accrued at estimated fair value at the date each promise is received. The allowance for doubtful accounts 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 | \$ 183,248,756 | \$ 34,266,320 | \$ 11,943 | \$ | \$ | \$ 217,527,019 |
| Research | 96,180,228 | 51,465,210 | 358,066 | | | 148,003,504 |
| Public Service | 55,159,005 | 21,034,298 | 16,952 | | | 76,210,255 |
| Academic Support | 34,046,798 | 15,659,580 | 13,435 | | | 49,719,813 |
| Student Service | 48,411,954 | 27,313,676 | 262 | | | 75,725,892 |
| Institutional Support | 24,718,606 | 8,723,475 | | | | 33,442,081 |
| Operations and Maintenance of Plant | 19,096,771 | 10,777,284 | 15,012,124 | | | 44,886,179 |
| Depreciation | | | | | 45,530,333 | 45,530,333 |
| Scholarships and Fellowships | | | | 28,542,631 | | 28,542,631 |
| Auxiliary Enterprises | 25,997,630 | 14,382,688 | 2,844,502 | | | 43,224,820 |
| Other | 514,242 | 365,182 | | | | 879,424 |
| Total Operating Expenses | <u>\$ 487,373,990</u> | <u>\$ 183,987,713</u> | <u>\$ 18,257,284</u> | <u>\$ 28,542,631</u> | <u>\$ 45,530,333</u> | <u>\$ 763,691,951</u> |

Note 18 – Restatements

Effective July 1, 2014, Kansas State University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements established standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses. As a result of the implementation, a prior period restatement of net position equaling (\$78,009,422) was recorded.

K-State Diagnostic and Analytical Services, Inc. made a prior period restatement of (\$73,254) to adjust prior year accounts receivable and revenue. K-State Athletics, Inc. restated to reflect a change in their accounting policy related to real property and certain leasehold improvements. The result was an increase in net position of \$10,153,730.

The net effect of these restatements resulted in a decrease in beginning net position of (\$67,928,946).

Additional copies available
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Notice of nondiscrimination

Kansas State University is committed to nondiscrimination on the basis of race, sex, national origin, disability, religion, age, sexual orientation, or other nonmerit reasons, in admissions, educational programs or activities and employment (including employment of disabled veterans and veterans of the Vietnam Era), as required by applicable laws and regulations. Responsibility for coordination of compliance efforts and receipt of inquiries concerning Title VI of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, Section 504 of the Rehabilitation Act of 1973, the Age Discrimination Act of 1975, and the Americans With Disabilities Act of 1990, has been delegated to the Director of Affirmative Action, Kansas State University, 214 Anderson Hall, Manhattan, KS 66506-0124, (Phone) 785-532-6220; (TTY) 785-532-4807.

