

Kansas State University

Annual Financial Report
Fiscal Year Ended June 30, 2016



Kansas State University Manhattan, Kansas

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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, 2016, with comparative totals for the year ended June 30, 2015. 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 Governmental Accounting Standards Board (GASB) principles for public colleges and universities.

STATEMENT OF NET POSITION

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows, and net position of 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, 2016 were \$1.5 billion, an increase of \$136.9 million (10.3%). This was largely attributable to an increase in capital assets. Capital assets, net of depreciation, comprised 72.2%, or \$1.06 billion of the total assets.

Total deferred outflows increased \$5.5 million and were due to an increase of pension liability.

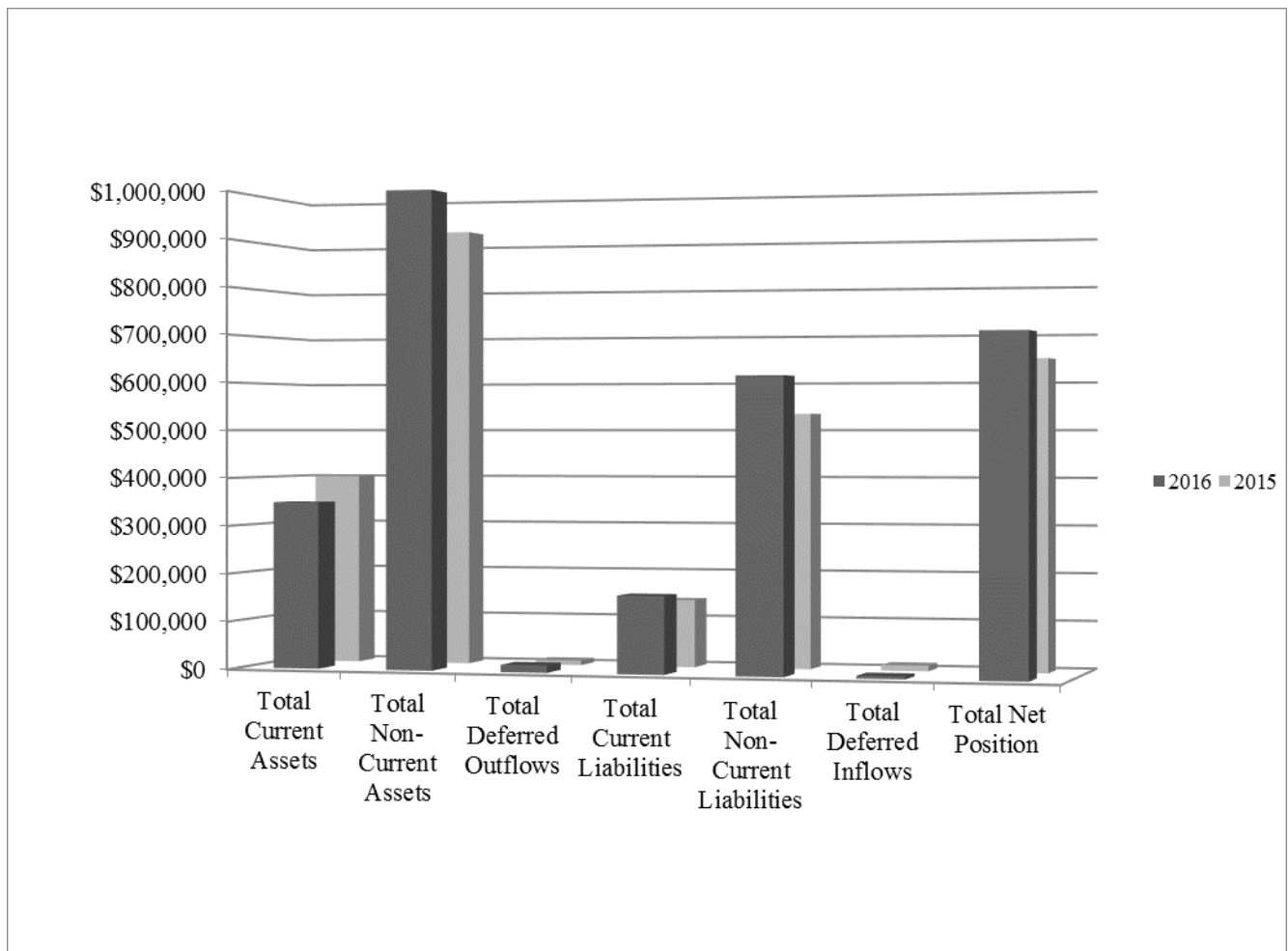
Total liabilities were \$772.4 million at June 30, 2016, an increase of \$96.8 million (14.3%), compared to \$675.6 million at June 30, 2015. This increase was a result of the issuance of bonds and increased pension liability. Long-term liabilities comprised 79.1%, or \$611.4 million of the total liabilities.

Deferred inflows totaled \$5.6 million due to a \$5.7 million decrease in pension contributions.

Total net position at June 30, 2016 was \$699.4 million, a \$51.3 million increase compared to the previous fiscal year. The university's net investment in capital assets increased \$92.8 million representing the University's continued commitment to improving and maintaining the learning and working environment of the campus community. Unrestricted net position decreased due to the University administration's management plan to fund certain construction projects with reserves rather than issue additional debt. The breakout of net position is shown below:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Net investment in capital assets.....	\$589,352,513	\$496,510,098
Restricted net position	67,649,494	45,036,792
Unrestricted net position	42,395,679	106,566,828
Total net position.....	\$699,397,686	\$648,113,718

The composition of current and non-current assets and liabilities and net position is displayed below for fiscal year-end 2016 and 2015 (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, 2016 decreased by \$3.3 million (-0.6%) over the previous fiscal year. The following is a brief summary of the significant changes:

- Student fee revenues, after scholarship allowances, were \$227.9 million in 2016, compared to \$226 million in 2015. This increase is a result of a tuition increase approved by the Kansas Board of Regents for fiscal year 2016.
- Grants and contracts (federal, state and local, and non-governmental) increased \$1.3 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 \$3.5 million from the previous fiscal year.
- Auxiliary enterprises include Department of Housing, Parking Services, Student Health, Center for Child Development along with a variety of other smaller services. With the exception of housing, revenues remained consistent with the previous fiscal year. Housing revenues decreased \$2.3 million as a result of decreased occupancy rates due to lower enrollment, but was partially offset by an approved increase in housing rates.
- Other operating revenues decreased \$3.4 million and contributions decreased \$2 million.

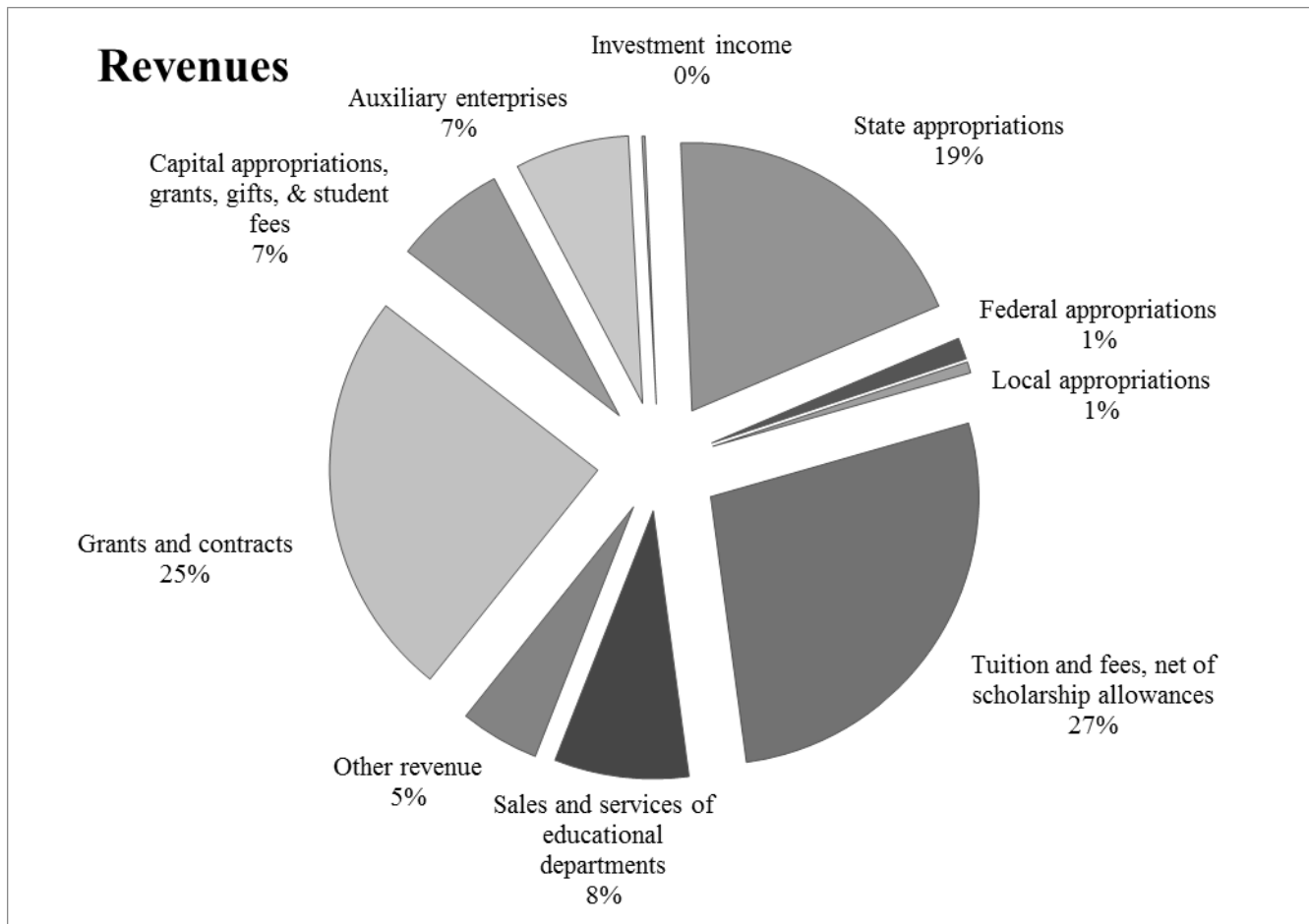
Total non-operating revenues were down 2.1% from the prior year from \$199.3 million to \$195.2 million. The following is a brief summary of the significant changes:

- State appropriations decreased from \$166.9 million to \$161 million.
- Local appropriations increased \$0.2 million based on increased sales tax collections.
- Investment income increased \$1 million, which is reflective of national market conditions.
- Federal and non-operating grants and contracts and student fees collected for capital projects increased \$1.3 million from the previous fiscal year.

Other revenues included the following changes and trends:

- Capital appropriations decreased from \$10.5 million to \$8.7 million.
- Capital grants and gifts were consistent with the previous fiscal year.

In summary, total revenues decreased by \$12.1 million, or 1.4%, from \$847.1 million to \$835 million. The composition of the total is displayed in the following graph:



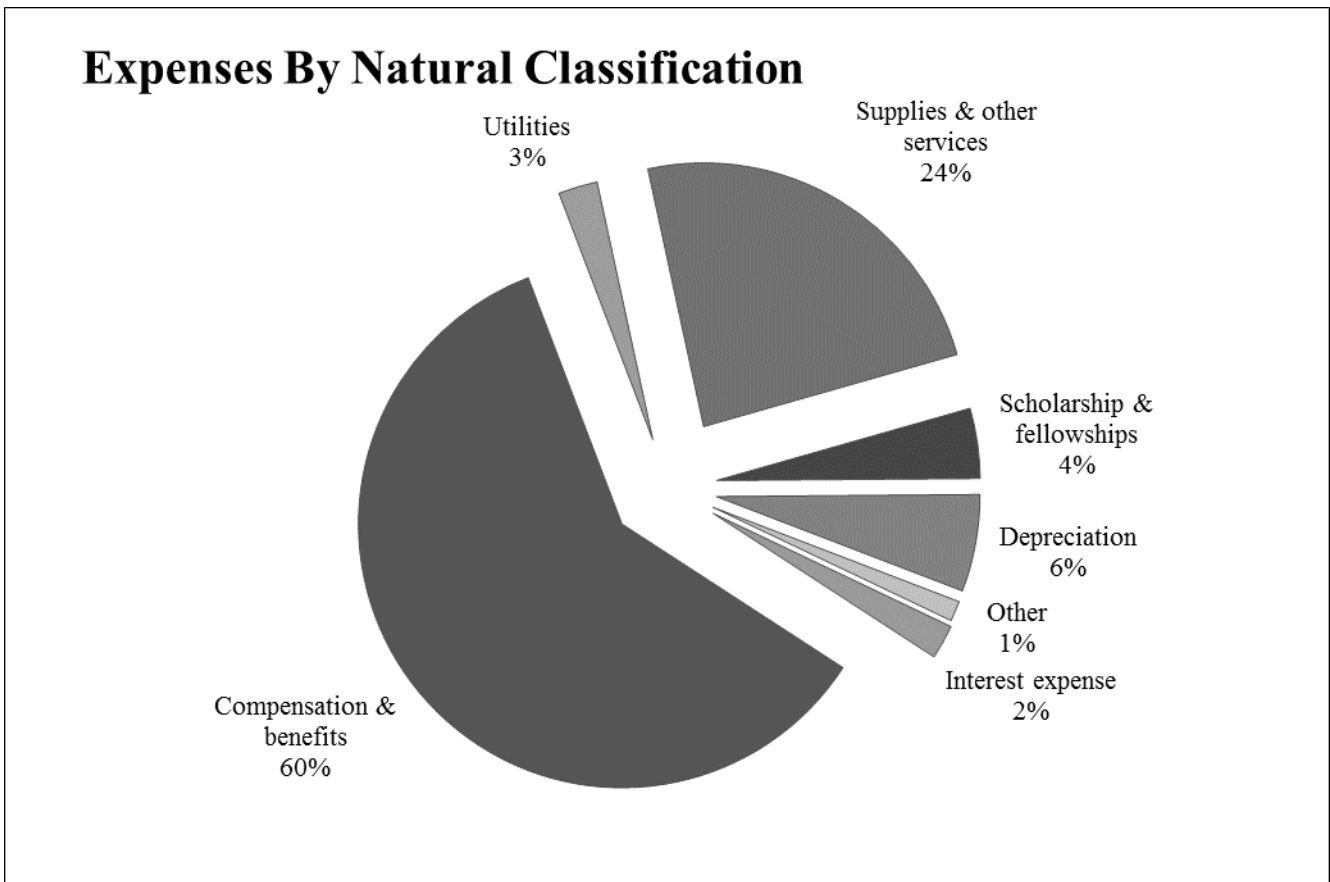
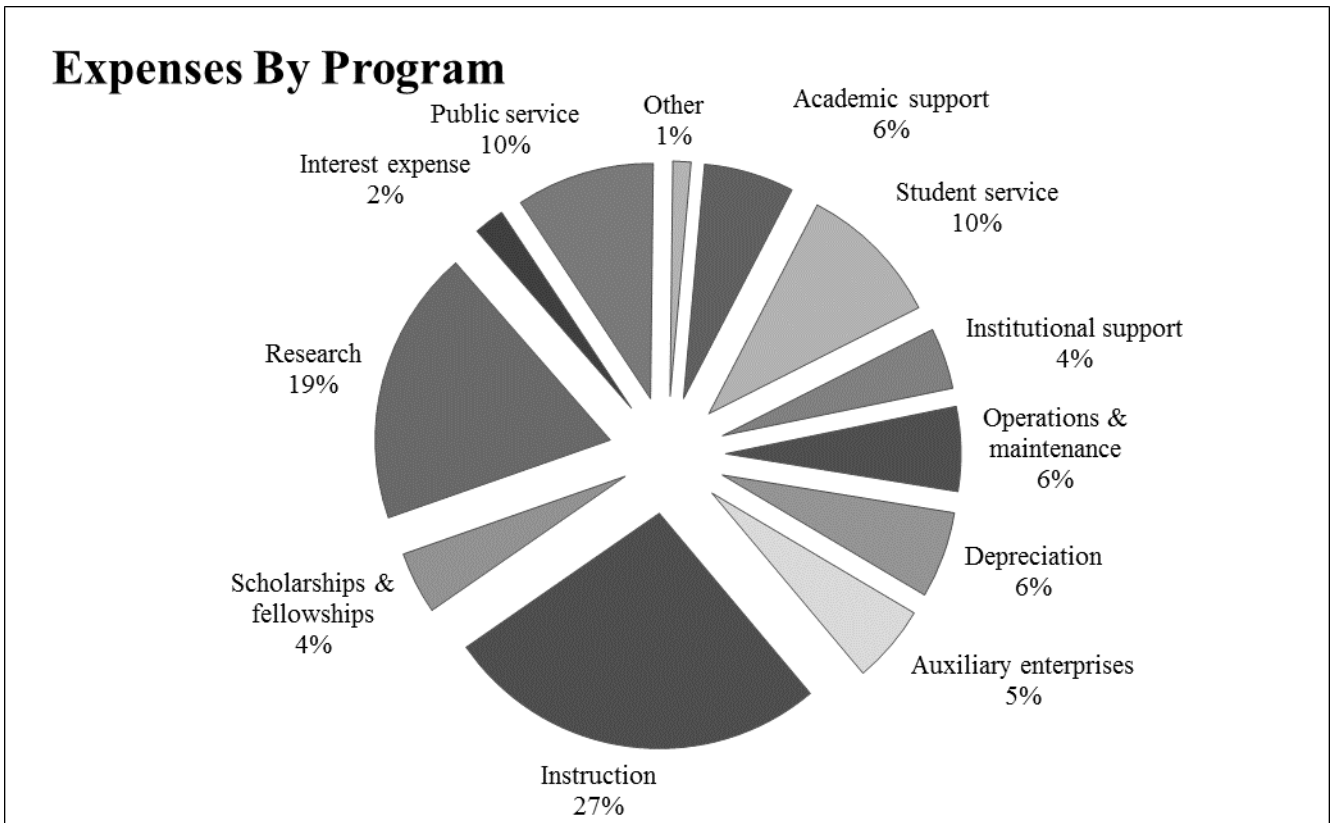
Expenses

Operating expenses were \$757.4 million for the 2016 fiscal year. This was a decrease from the prior year of \$6.3 million or .8%. The following is a brief summary of the changes:

- Expenses related to the University’s mission of instruction, research and public service decreased \$11.5 million from \$441.7 million to \$430.3 million in 2016.
- Auxiliary services expenses decreased \$1.1 million from \$43.2 million to \$42.1 million in 2016.
- Expenses related to academic support, student services, and institutional support increased \$0.5 million from \$158.9 million to \$159.4 million in 2016.
- Operations & maintenance of plant expenditures increased \$0.6 million from \$44.9 million to \$45.5 million in 2016.
- Depreciation and other expenses increased \$0.1 million from \$46.4 million to \$46.5 million.

Non-operating expenses, represented by interest expense and loss on disposal of assets, decreased \$5.4 million from \$28.4 million in 2015 to \$23.0 million in 2016..

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



STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents cash receipts and payments 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, 2016</u>	<u>June 30, 2015</u>
Net cash provided (used) by:		
Operating activities	\$ (134,331)	\$ (119,531)
Non-capital financing/appropriations	189,774	194,747
Capital and related financing/appropriations	(121,527)	(92,214)
Investing activities	<u>(10,165)</u>	<u>30,643</u>
Net increase in cash	(76,249)	13,645
Beginning cash and cash equivalent balances	<u>346,700</u>	<u>333,055</u>
Ending cash and cash equivalent balances	\$ 270,451	\$ 346,700

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 receipts and disbursements 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 2015-2016 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 FY2016, the university spent approximately \$14.4 million on infrastructure and deferred building maintenance projects.
- The Berney Family Welcome Center \$20 million project was completed late in FY2016. The Center serves as a central location for promoting student success by providing assistance to both new and prospective students, as well as current students preparing to make the transition from college to career.
- Construction on the Engineering Complex addition was completed during FY2016. The \$40 million project provides additional offices and teaching space for the College of Engineering.

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

- The Jon Wefald Hall, a new resident hall and dining center project, was initiated in FY2014. The \$70 million facility will alleviate the current dormitory overflow situation and allow first and second year students to be close to the core campus where classes are located. Completion is expected in FY2017.
- Groundbreaking occurred in October 2014 for the new College of Business Administration building. Funding for the \$50 million project is being 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.
- As part of the university's third phase to update Bill Snyder Family Stadium, construction on the Vanier Football Complex began in December 2015 and was completed in August 2016. The \$15 million expansion included visiting team and official's locker rooms, a videoboard, and a 360-degree concourse.

- A \$56 million expansion of the chilled water plant and distribution system continues. 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 FY2017.
- Construction on the \$31 million K-State Student Union renovation, funded by a student-approved privilege fee, is on track for its grand opening in the spring of 2017. The project will update the external appearance, renovate retail areas, add collaborative student lounges and enhance dining services with a sports pub and coffee house.
- The \$2.8 million Equine Performance Testing Facility construction began in June 2016 and is expected to be complete by January 2017. The new addition to the Veterinary Medicine Complex will provide a soft-footing riding arena, an asphalt footing area, a 140-foot-long runway for lameness examinations, holding stalls, and areas for farrier services and radiographic imaging.
- The Seaton Hall expansion and renovation will provide 194,000 square feet of space with interdisciplinary design labs, an outdoor teaching amphitheater, a 300-seat auditorium, consolidated fabrication and product design labs, an atrium commons and collaborative spaces. The \$59 million project began construction in September 2015 and is expected to be complete in the summer of 2017.

DEBT ADMINISTRATION

At June 30, 2016, the University had \$544.6 million in debt outstanding, compared to \$453.7 million at June 30, 2015. The increase of \$90.9 million is due to the issuance of \$59 million in bonds for the Seaton Hall project, \$24.3 million in bonds for the Student Union project and was partially offset by advanced refunding of an existing Parking bond issue and two existing K-State Athletics bond issues. The University also entered into capital lease agreements totaling \$3.7 million for land and the Foundation Tower. K-State Athletics, Inc. has an outstanding balance of \$16 million on a revolving line of credit used for the construction and renovation of the north end of Bill Snyder Family Stadium and Vanier Complex Phases III and IV. The University paid \$18 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, 9 and 10 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. As of the end of FY2016, the University's endowment balance was \$475.6 million, which benefits key areas for faculty, staff and students. The University's alumni, friends, corporate partners, students, faculty and staff provided a total of \$150.6 million of gift activity. This is the fifth consecutive year that fundraising has topped \$100 million. These private funding efforts reflect confidence in the direction K-State is moving in delivering a quality educational experience for our students and in conducting vital research and service efforts for the state, nation, and world.

Fall 2015 student headcount for the 2015-2016 academic year dropped 2.5% from the Fall of 2014, with projections for Fall of 2016 predicting similar declines in enrollment. Research expenditures have seen modest increases with the trend expected to continue. Overall, the financial position of the University is stable and management will continue to monitor the state and national economic conditions as part of its financial planning.

The State of Kansas continues to experience constrained revenue collections and repeatedly took action in FY 2016 to balance the state's budget. Throughout the fiscal year, the Governor and the Legislature made transfers from special revenue funds and cut budgets or delayed payments into future fiscal years in order to maintain a positive ending balance. Tax initiatives implemented in 2012 by the State of Kansas, intended to stimulate the state's economy, continue to negatively impact revenue collections at the state level. The 2015 Legislature increased the State's rate on sales and cigarette taxes, however, these changes have not been enough to balance revenues to planned expenditures. As a result, the state has continually relied on large revenue transfers from the State Highway Fund to mitigate the structural imbalance which exists.

Looking to FY2017 and beyond, anticipated revenue collections for the state will be hard pressed to fund promised expenditures. It is anticipated that tax revenues will have to increase just to meet minimal obligations in increased expenditures for human service caseloads, K-12 costs, and State Employee Retirement contributions. The long-term outlook of the university's state appropriations remains uncertain. As state funding has remained stagnate or fallen, pressure has increased on tuition dollars and extramural funding to cover increasing operating costs. The University continues to grow extramural funding opportunities along with exploring new student recruitment efforts and collaborative initiatives outside of the United States. The University will invest substantially next fiscal year in out-of-state scholarships in order to increase the ability to recruit and compete in this student population. This strategy is designed to provide a return on investment over a five-year period. Other targeted strategic enrollment initiatives are also under consideration, which are intended to generate new revenues through increased enrollment.

State general fund (SGF) appropriations for fiscal year 2017 are currently set at \$157.9 million. This is a decrease from FY 2016 appropriations and reflects a \$4.0 million reduction in the Global Food Systems initiative as well as an allotment of \$7.1 million from all university SGF accounts ordered by the Governor in May 2016. The University is left with a targeted investment of \$1.0 million for the Global Food Systems Initiative, which is used to accelerate new research and teaching opportunities for faculty and staff and to add value to students' overall education experience. The Governor continued to support the initiative to increase the number of engineering graduates from the University by funding \$3.5 million for the fifth year of a ten-year funding strategy. Lastly, the Legislature approved \$3.7 million from the Educational Building Fund to finance debt service payments on bonds issued for the capital project to renovate and expand Seaton Hall, home of the College of Architecture, Planning and Design.

One of the major legislative changes approved by the 2016 Legislature was the removal of the tuition cap previously imposed by the 2015 Legislature for FY2016. Removal of the cap allowed all regent institutions to establish tuition rates for the fall of 2016 (FY 2017) in accordance with their own requirements. However, the Legislature also imposed a proviso stipulating that any allotment action initiated by the Governor on SGF accounts in FY2017 would be calculated as a uniform percentage amount on the basis of the total of all regent institutions' all funds operating budgets, rather than on the basis of their state general fund budget only. In essence, in the event of an allotment, a larger portion of the budget cut would fall on Kansas State University and the University of Kansas due to the large research initiatives, and associated expenditures that occur on those campuses. In May of 2016, the Governor implemented a 4 percent allotment reduction to the post-secondary education system for FY 2017. This resulted in a 5.1 percent reduction for the main campus state general fund accounts and a 4.3 percent reduction for the university overall, whereas some of the smaller regent institutions received a 2.8 to 3.8 percent reduction. This proviso remains in effect for FY2017.

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 variables having a global effect on virtually all types of business operations.

Kansas State University
Statement of Net Position
For the Year Ended June 30, 2016

	University Funds		Component Units	
	2016	2015	2016	2015
<u>ASSETS</u>				
Current Assets				
Cash and cash equivalents	\$ 171,173,197	\$ 214,631,672	\$ 9,742,579	\$ 11,054,719
Restricted cash and cash equivalents	99,277,964	119,207,548	134,851	-
Accounts receivable, net	50,610,439	43,144,987	247,654	416,946
Pledges receivable, net	6,005,439	5,260,793	-	-
Investments	10,675,295	7,359,235	8,041,263	6,857,028
Loans to students, net	4,637,394	5,012,736	-	-
Inventories	5,714,498	4,755,097	37,575	132,186
Prepaid expenses	272,104	1,127,823	41,472	29,472
Total Current Assets	<u>348,366,330</u>	<u>400,499,891</u>	<u>18,245,394</u>	<u>18,490,351</u>
Noncurrent Assets				
Restricted cash and cash equivalents	-	12,860,623	-	30,000
Pledges receivable, net	16,007,248	18,128,900	-	-
Investments	31,263,285	22,611,296	1,765,164	1,943,229
Loans to students, net	11,548,702	10,950,608	-	-
Other assets	-	761,498	90,125	120,000
Capital assets, net	1,055,311,483	859,795,230	2,484,032	1,982,306
Total Noncurrent Assets	<u>1,114,130,718</u>	<u>925,108,155</u>	<u>4,339,321</u>	<u>4,075,535</u>
Total Assets	<u>1,462,497,048</u>	<u>1,325,608,046</u>	<u>22,584,715</u>	<u>22,565,886</u>
<u>DEFERRED OUTFLOWS</u>				
Deferred amounts on refunding	4,341,375	3,774,363	-	-
Pension Contributions	10,614,981	5,729,682	-	-
Total Deferred Outflows of Resources	<u>14,956,356</u>	<u>9,504,045</u>	<u>-</u>	<u>-</u>
<u>LIABILITIES</u>				
Current Liabilities				
Accounts payable and accrued liabilities	80,260,718	64,539,502	800,345	1,149,954
Due to other agencies	-	724,222	-	-
Unearned revenue	41,044,665	41,116,954	589,871	672,590
Accrued compensated absences	18,499,627	18,600,000	12,899	6,528
Capital lease payable	1,510,443	821,534	-	-
Other loan payable	136,218	136,218	110,000	699,297
Revenue bonds payable	19,256,186	15,032,214	-	-
Other liabilities	-	-	35,866	29,174
Deposits held in custody for others	344,893	441,548	1,452,591	1,154,106
Total Current Liabilities	<u>161,052,750</u>	<u>141,412,192</u>	<u>3,001,572</u>	<u>3,711,649</u>
Noncurrent Liabilities				
Accrued compensated absences	3,349,270	2,931,751	-	-
Accrued other postemployment benefits	421,134	20,555,000	-	-
Capital lease payable	3,657,278	1,578,097	-	-
Other loan payable	17,634,610	1,770,828	420,000	30,000
Revenue bonds payable	502,417,201	434,367,394	-	-
Other liabilities	1,200,161	1,052,024	-	-
Net pension liability	82,688,749	71,947,881	-	-
Total Noncurrent Liabilities	<u>611,368,403</u>	<u>534,202,975</u>	<u>420,000</u>	<u>30,000</u>
Total Liabilities	<u>772,421,153</u>	<u>675,615,167</u>	<u>3,421,572</u>	<u>3,741,649</u>
<u>DEFERRED INFLOWS</u>				
Pension Contributions	5,634,565	11,383,206	-	-
Total Deferred Inflows of Resources	<u>5,634,565</u>	<u>11,383,206</u>	<u>-</u>	<u>-</u>
<u>NET POSITION</u>				
Net investment in capital assets	589,352,513	496,510,098	2,484,032	1,982,306
Restricted for:				
Nonexpendable	18,759,124	4,372,691	21,645	-
Expendable				
Scholarships, research, instruction, public service, & other	5,654,353	(16,004,571)	311,220	210,000
Loans	19,001,585	19,438,206	-	75,000
Capital projects	12,652,026	21,709,914	-	763,096
Debt service	11,582,406	15,520,552	-	-
Unrestricted	42,395,679	106,566,828	16,346,246	15,793,835
Total Net Position	<u>\$ 699,397,686</u>	<u>\$ 648,113,718</u>	<u>\$ 19,163,143</u>	<u>\$ 18,824,237</u>

Kansas State University
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

	University Funds		Component Units	
	2016	2015	2016	2015
Operating Revenues:				
Tuition and fees, net of scholarship allowances of \$40,052,929	\$ 227,868,077	\$ 226,005,082	\$ 2,684,177	\$ 2,782,362
Federal appropriations	10,840,954	13,452,457	-	-
Federal grants and contracts	89,636,641	88,595,953	-	-
State and local grants and contracts	7,933,368	9,274,060	-	-
Nongovernmental grants and contracts	89,566,643	87,933,671	127,000	125,000
Sales and services of educational activities	67,676,587	64,220,662	3,656,255	8,353,040
Auxiliary enterprises	-	-	-	-
Housing revenues	43,712,515	46,048,115	-	-
Parking revenues	4,100,900	4,033,747	-	-
Student health revenues	7,623,877	7,148,696	-	-
Child care center	1,894,710	1,888,438	-	-
Other auxiliary revenues	233,572	274,449	-	-
Interest earned on loans to students	317,971	403,554	-	-
Other operating revenues	16,972,673	20,358,352	3,728,428	4,390,586
Contributions	18,528,719	20,541,054	76,157	11,000
Total Operating Revenues	<u>586,907,207</u>	<u>590,178,290</u>	<u>10,272,017</u>	<u>15,661,988</u>
Operating Expenses:				
Instruction	207,403,737	217,527,019	10,191	796,972
Research	148,385,795	148,003,504	2,077,805	2,775,521
Public Service	74,486,929	76,210,255	-	-
Academic Support	48,602,263	49,719,813	-	-
Student Service	77,810,590	75,725,892	791,546	3,481,812
Institutional Support	32,982,473	33,442,081	5,626,310	2,720,992
Operations & Maintenance of Plant	45,538,197	44,886,179	105,584	310,772
Depreciation	46,585,984	45,530,333	305,468	331,510
Scholarships & Fellowships	33,566,815	28,542,631	-	-
Auxiliary Enterprises	42,137,952	43,224,820	-	-
Other Expenses	(129,070)	879,424	1,099,509	3,141,672
Total Operating Expenses	<u>757,371,665</u>	<u>763,691,951</u>	<u>10,016,413</u>	<u>13,559,251</u>
Operating Income (Loss)	<u>(170,464,458)</u>	<u>(173,513,661)</u>	<u>255,604</u>	<u>2,102,737</u>
Nonoperating Revenues (Expenses)				
State appropriations	161,046,577	166,918,426	-	-
Local appropriations	5,653,000	5,477,000	-	-
Federal grants and contracts	19,469,596	20,147,841	-	-
Other nonoperating revenue	3,701,233	2,285,546	100,000	-
Gifts	-	-	-	-
Investment income	1,541,978	609,317	(29,349)	132,830
Interest expense	(16,555,002)	(13,935,758)	-	-
Gain/Loss on disposal of assets	(6,443,231)	(14,415,048)	12,651	(20,642)
Student fees for capital projects	3,803,286	3,901,682	-	-
Net Nonoperating Revenues	<u>172,217,437</u>	<u>170,989,006</u>	<u>83,302</u>	<u>112,188</u>
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	<u>1,752,979</u>	<u>(2,524,655)</u>	<u>338,906</u>	<u>2,214,925</u>
Capital appropriations	8,671,000	10,465,000	-	-
Capital grants and gifts	44,005,045	44,702,396	-	-
Additions to permanent endowment	261,620	2,447,775	-	-
Other additions/deductions, net	(3,406,676)	(1,734,438)	-	1,600,000
Increase (Decrease) in Net Assets	<u>51,283,968</u>	<u>53,356,078</u>	<u>338,906</u>	<u>3,814,925</u>
Net Position				
Net Position -- Beginning of Year, as previously reported	648,113,718	662,686,586	18,824,237	15,009,312
Prior Period Restatement	-	(67,928,946)	-	-
Net Position -- Beginning of Year, as restated	<u>648,113,718</u>	<u>594,757,640</u>	<u>18,824,237</u>	<u>15,009,312</u>
Net Position -- End of Year	<u>\$ 699,397,686</u>	<u>\$ 648,113,718</u>	<u>\$ 19,163,143</u>	<u>\$ 18,824,237</u>

Kansas State University
Statement of Cash Flows
For the Year Ended June 30, 2016

	University Funds	
	2016	2015
Cash Flows from Operating Activities		
Tuition and fees	\$ 272,056,322	\$ 266,509,203
Endowment income	19,905,725	18,330,618
Sales and services of educational activities	67,676,587	64,220,662
Auxiliary enterprise charges		
Housing	43,920,241	46,656,086
Other	9,060,715	13,568,069
Grants and contracts	183,034,091	181,884,738
Federal appropriations	10,840,954	13,452,457
Payments to suppliers	(287,803,866)	(258,784,874)
Compensation & benefits	(470,090,074)	(486,727,911)
Loans issued to students and employees	(4,234,903)	(4,168,733)
Collections on loans issued to students and employees	4,012,151	4,766,918
Other receipts (payments)	17,290,644	20,761,906
	(134,331,413)	(119,530,861)
Net Cash Flows from Operating Activities		
Cash Flows from Noncapital Financing Activities		
State appropriations	161,046,577	166,918,426
Local appropriations	5,653,000	5,477,000
Federal/State student aid	19,469,596	20,174,545
Direct lending receipts	122,894,230	126,137,403
Direct lending payments	(122,894,230)	(126,164,107)
Funds held for others	(96,655)	(81,513)
Nonoperating grants	3,701,233	2,285,546
	189,773,751	194,747,300
Net Cash Flows from Noncapital Financing Activities		
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	166,524,207	66,607,537
Proceeds from sale of capital assets	136,704,540	21,744,732
Capital appropriations	8,671,000	10,465,000
Capital grants and gifts	44,005,045	44,702,396
Student fees for capital projects	3,803,286	3,901,682
Purchases of capital assets	(380,918,399)	(200,366,021)
Principal paid on capital debt and leases	(18,052,028)	(14,917,508)
Principal paid by revenue bond defeasance	(61,750,000)	(9,040,000)
Interest paid on capital debt and leases	(17,107,544)	(13,577,590)
Other	(3,406,676)	(1,734,438)
	(121,526,569)	(92,214,210)
Net Cash Flows from Capital and Related Financing Activities		
Cash Flows from Investing Activities		
Investment income	1,803,598	3,057,092
Purchase/Redemption of investments	(11,968,049)	27,586,017
	(10,164,451)	30,643,109
Net Cash Flows from Investing Activities		
Net change in cash and cash equivalents	(76,248,682)	13,645,338
Cash and cash equivalents -- beginning of year	346,699,843	333,054,505
Cash and cash equivalents -- end of year	\$ 270,451,161	\$ 346,699,843

Kansas State University
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2016

	University Funds	
	2016	2015
Reconciliation		
Operating income (loss)---SRECNP	\$ (170,464,458)	\$ (173,513,661)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	46,585,984	45,530,333
Changes in assets and liabilities:		
Accounts receivable, net	(6,102,916)	(6,855,410)
Loans to students, net	(222,752)	598,185
Inventories	(197,903)	(605,518)
Prepaid expenses	855,719	(287,847)
Accounts payable and accrued liabilities	(5,136,872)	15,949,396
Unearned revenue	(72,289)	(992,418)
Accrued compensated absences	317,146	1,054,096
Pension contributions	106,928	(408,017)
	<u>\$ (134,331,413)</u>	<u>\$ (119,530,861)</u>
Net cash used in operating activities---Cash Flow	<u>\$ (134,331,413)</u>	<u>\$ (119,530,861)</u>

Kansas State University Foundation
Consolidated Statements of Financial Position
June 30, 2016 and 2015

Assets

	2016	2015
Cash and cash equivalents	\$ 62,138,318	\$ 80,316,007
Investments	672,381,936	673,967,565
Pledges receivable – net of allowance and discounts	58,676,189	63,261,091
Receivables from estates	2,877,582	2,622,338
Loans receivable	199,843	230,603
Property and equipment, net of accumulated depreciation; 2016 - \$578,850, 2015 - \$2,641,915	15,151,853	1,624,345
Golf Course property and equipment, net of accumulated depreciation; 2016 - \$2,863,359, 2015 - \$2,317,185	7,683,152	8,043,680
Cash surrender value of life insurance policies	5,786,009	5,556,658
Other assets and accrued investment income	9,376,893	8,511,213
	<u>\$ 834,271,775</u>	<u>\$ 844,133,500</u>
Total assets	<u>\$ 834,271,775</u>	<u>\$ 844,133,500</u>

Liabilities and Net Assets

Liabilities

Accounts payable, deposits and other liabilities	\$ 4,190,511	\$ 16,097,451
Accrued liabilities	1,920,231	1,819,800
Assets held for others	11,515,786	11,383,291
Unitrust and annuity liabilities	17,860,993	18,459,316
Long-term debt and lines of credit	19,361,540	19,885,199
	<u>54,849,061</u>	<u>67,645,057</u>
Total liabilities	<u>54,849,061</u>	<u>67,645,057</u>

Net Assets

Unrestricted net assets	68,756,803	85,168,758
Temporarily restricted net assets	345,784,062	343,751,455
Permanently restricted net assets	364,881,849	347,568,230
	<u>779,422,714</u>	<u>776,488,443</u>
Total net assets	<u>779,422,714</u>	<u>776,488,443</u>
Total liabilities and net assets	<u>\$ 834,271,775</u>	<u>\$ 844,133,500</u>

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

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

Kansas State University 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)	(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 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	<u>41,286,597</u>	<u>-</u>	<u>-</u>	<u>41,286,597</u>
Subtotal	107,013,619	-	-	107,013,619
Investment – loan interest expense and write-off	517,967	-	-	517,967
Foundation administration and fundraising	<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	(6,217,563)	(14,233,384)	14,255,078	(6,195,869)
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

Notes to Financial Statements
For the Year Ended June 30, 2016

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.

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.

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

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, 2016

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.

Pronouncements Issued. GASB Statement No. 72, *Fair Value Measurement and Application*, effective for periods beginning after June 15, 2015, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments.

Implementation of GASB 72 did not have a significant impact on the financial statements.

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

Accounts Receivable. Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the Federal, state and local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to 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, 2016

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. Costs incurred during construction of long-lived assets are recorded as construction-in-progress and are not depreciated until placed in service.

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

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

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

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

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

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

Deferred Outflow/Inflows of Resources. Deferred outflows and deferred inflows result from the 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.

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.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

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.

Reclassification. Certain reclassifications have been made to the 2015 financial statements to conform to the current year's presentation. These reclassifications had no impact on total net position as previously reported.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

Note 2 – Deposits and Investments

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

	<u>2016</u>	<u>2015</u>
Cash deposits with State Treasury	\$228,243,066	\$292,678,324
Cash deposits with financial institutions	42,208,095	54,021,519
Short Term Investment	1,499,714	1,983,918
Guaranteed investment contracts	-	1,099,342
Investments at KSU Foundation	25,493,621	26,887,271
Other investments	14,945,245	-
	<u>\$312,389,741</u>	<u>\$376,670,374</u>

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

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents (current)	\$171,173,197	\$214,631,672
Restricted cash and cash equivalents (current)	99,277,964	119,207,548
Investments (current)	10,675,295	7,359,235
Restricted cash and cash equivalents (non-current)	-	12,860,623
Investments (non-current)	31,263,285	22,611,296
	<u>\$312,389,741</u>	<u>\$376,670,374</u>

Deposits.

The carrying amount of the University's cash and cash equivalents with the State Treasurer and other financial institutions at June 30, 2016 were \$270,451,161. 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, 2016

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

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

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.

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) re-balancing the portfolios. Investment results are monitored by the committee quarterly through manager and portfolio performance and due diligence reporting and annually through outside auditing of the Foundation's accounts and procedures. The specific return objectives, risk parameters and spending policies of K-State Athletics, Inc. are adopted to be in compliance with the Foundation's policies and procedures for endowment and investment management.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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, 2016, 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
Short Term Investments	\$1,499,714	\$1,499,714			
Investments not subject to maturity dates:					
KSU Foundation Investment Pool	\$25,493,621				
Other Long Term Investments	\$14,945,245				
Grand Total	\$41,938,580				

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. Certain investments have an underlying collateral agreement.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

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, K DFA 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 that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

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

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

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities on a recurring basis recognized in the accompanying Statement of Net Position and the corresponding level within the fair value hierarchy at June 30, 2016. Information to determine the June 30, 2016 levels for investments held by the KSU Foundation for K-State Athletics, Inc. was not available as of the date of their audit report and therefore not included in the table below.

	June 30, 2016			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market mutual funds	\$ 11,829,872	\$ 11,829,872	\$ -	\$ -
U.S. Treasury securities	1,499,714	1,499,714	-	-
Guaranteed investment contracts	658,572	658,572	-	-
External investment pools	3,725,087	3,725,087	-	-
	<u>\$ 17,713,245</u>	<u>\$ 17,713,245</u>	<u>\$ -</u>	<u>\$ -</u>

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

Note 3 – Accounts Receivable

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Student tuition and fees	\$11,395,469	\$13,499,613
Auxiliary enterprises and other operating activities	879,167	1,086,893
Federal, state, and private grants and contracts	20,776,315	16,410,093
Interest	-	14,470
Unspent State Appropriations	7,643,492	8,176,757
Other	10,650,990	4,864,304
Pledges	<u>22,012,687</u>	<u>23,389,693</u>
	\$73,358,120	\$67,441,823
Less allowance for doubtful accounts	<u>734,994</u>	<u>907,143</u>
Net accounts receivable	<u>\$72,623,126</u>	<u>\$66,534,680</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, 2016 and 2015. 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, 2016 and 2015, the allowance for uncollectible loans was estimated to be \$2,170,501 and \$1,687,795, respectively.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

Note 5 – Capital Assets

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

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

K-State Olathe Innovation Campus, Inc.	30,926,628
K-State Italy	95
K-State Diagnostic and Analytical Services, Inc.	578,167
K-State Athletics, Inc.	33,991,893
	<u>\$1,055,311,483</u>

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Notes to Financial Statements
For the Year Ended June 30, 2016

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
				<u>\$859,795,230</u>

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, 2016

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:

	June 30, 2016	June 30, 2015
Tuition and fees	\$ 8,849,886	\$ 9,646,913
Grants and contracts	19,962,115	19,698,454
Athletic tickets and other	12,232,664	11,771,587
	\$41,044,665	\$41,116,954

Note 7 – Changes in Noncurrent Liabilities

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

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

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

	Beginning			Ending	Current
	Balance	Additions	Reductions	Balance	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>\$451,250,565</u>	<u>\$ 161,977,539</u>	<u>\$ 44,435,163</u>	<u>\$568,792,941</u>	<u>\$34,589,966</u>

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

Note 8 – Revenue Bonds Outstanding

Revenue bonds payable consisted of the following at June 30, 2016:

	Principal Outstanding <u>6/30/16</u>	Principal Outstanding <u>6/30/15</u>
<p>Kansas Development Finance Authority Revenue Bonds – Series 2016D (The K-State Athletics, Inc. of Kansas State University 2011A-1 Refunding Project) issued on 4/5/2016 in the original amount of \$15,615,000. Due in annual installments with final maturity on 7/1/31. Interest ranging from 2.4% to 5% payable semi-annually, collateralized by the pledge of revenues of the corporation.</p>	\$ 15,615,000	-
<p>Kansas Development Finance Authority Revenue Bonds – Series 2016D (The K-State Athletics, Inc. of Kansas State University 2012B-1 Refunding Project) issued on 4/5/12016 in the original amount of \$32,495,000. Due in annual installments with final maturity on 7/1/32. Interest ranging from 2.4% to 5% payable semi-annually, collateralized by the pledge of revenues of the corporation.</p>	\$ 32,495,000	-
<p>Kansas Development Finance Authority Revenue Bonds – Series 2016A (Kansas State University Student Union Project) issued on January 7, 2016 in the original amount of \$24,275,000. Due in annual installments with final maturity on 3/1/36. Interest ranging from 2.0% to 4.0% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues.</p>	\$ 24,275,000	-
<p>Kansas Development Finance Authority Revenue Bonds – Series 2016A (Kansas State University Seaton Hall Project) issued on January 7, 2016 in the original amount of \$59,000,000. Due in annual installments with final maturity on 3/1/2040. Interest ranging from 2.0% to 4.0% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues.</p>	\$ 59,000,000	-
<p>Kansas Development Finance Authority Revenue Bonds – Series 2016A (Kansas State University 2007H Parking Refunding Project) issued on January 7, 2016 in the original amount of \$14,540,000. Due in annual installments with final maturity on 3/1/36. Interest ranging from 2.0% to 4.0% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues.</p>	\$14,540,000	-
<p>Kansas Development Finance Authority Revenue Bonds – Series 2015B (Kansas State University Chill Plant Project) issued on April 30, 2015 in the original amount of \$53,650,000. Due in annual installments with final maturity on 5/1/35. Interest ranging from 3.0% to 5.0% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues.</p>	\$ 51,965,000	\$ 53,650,000
<p>Kansas Development Finance Authority Revenue Bonds – Series 2015B (Kansas State University 2005A Housing Refunding Project) issued on April 30, 2015 in the original amount of \$800,000. Due in annual installments with final maturity on 5/1/34. Interest ranging from 3.0% to 5.0% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues</p>	\$ 770,000	\$ 800,000

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

	Principal Outstanding <u>6/30/16</u>	Principal Outstanding <u>6/30/15</u>
<p>Kansas Development Finance Authority Revenue Bonds – Series 2015B (Kansas State University 2007A Housing Refunding Project) issued on April 30, 2015 in the original amount of \$7,415,000. Due in annual installments with final maturity on 5/1/37. Interest ranging from 3.0% to 5.0% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues.</p>	\$ 6,745,000	\$ 7,415,000
<p>Kansas Development Finance Authority Revenue Bonds – Series 2014D-1 (Kansas State University College of Engineering Project) issued on May 1, 2014 in the original amount of \$18,615,000. Due in annual installments with final maturity on 4/1/29. Interest ranging from 3.0% to 5.0% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues and KSU Kan-Grow Revenues.</p>	\$ 16,690,000	\$ 17,605,000
<p>Kansas Development Finance Authority Revenue Bonds – Series 2014D-2 (Kansas State University Housing Projects) issued on May 1, 2014 in the original amount of \$114,935,000. Due in annual installments with final maturity on 4/1/44. Interest ranging from 3.0% to 5.0% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues.</p>	\$ 113,575,000	\$ 114,675,000
<p>Kansas Development Finance Authority Revenue Bonds – Series 2012F (Kansas State University Energy Conservation Project) issued on November 1, 2012 in the original amount of \$17,205,000. Due in annual installments with final maturity on 5/1/33. Interest ranging from 2.0% to 5.0% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues.</p>	\$ 15,310,000	\$ 15,960,000
<p>Kansas Development Finance Authority Refunding Revenue Bonds-Series 2012H (Kansas State University Project – Energy Conservation) issued on April 19, 2012 in the original amount of \$12,460,000. Due in annual installments with final maturity on 8/1/23. Interest ranging from 2.0% to 5.0% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues.</p>	\$ 10,125,000	\$ 11,245,000
<p>Kansas Development Finance Authority Refunding Revenue Bonds-Series 2012H (Kansas State University Project – Scientific R&D Facilities) issued on April 19, 2012 in the original amount of \$23,510,000. Due in annual installments with final maturity on 8/1/32. Interest ranging from 2.0% to 5.0% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues.</p>	\$ 22,940,000	\$23,025,000
<p>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.</p>	-	\$30,035,000

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Notes to Financial Statements
For the Year Ended June 30, 2016

	Principal Outstanding <u>6/30/16</u>	Principal Outstanding <u>6/30/15</u>
<p>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.</p>	\$ 21,920,000	\$22,695,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2011G (Kansas State University Project – Landfill) issued on November 3, 2011 in the original amount of \$3,840,000. Due in annual installments with final maturity on 4/1/41. Interest ranging from 0.50% to 4.125% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues.</p>	\$ 3,320,000	\$ 3,410,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2011G (Kansas State University Project – Manhattan Housing Jardine) issued on November 3, 2011 in the original amount of \$12,460,000. Due in annual installments with final maturity on 4/1/41. Interest ranging from 0.50% to 4.125% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues.</p>	\$ 10,805,000	\$11,090,000
<p>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.</p>	-	\$17,225,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2010U-1 (The Kansas Board of Regents – Kansas State University Qualified Energy Conservation Project) issued on December 1, 2010 in the original amount of \$17,815,000. Due in annual installments with final maturity on 5/1/29. Interest ranging from 1.8% to 5.45% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues.</p>	\$ 13,255,000	\$14,395,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2010U-2 (The Kansas Board of Regents – Kansas State University Project – Energy Conservation) issued on December 1, 2010 in the original amount of \$2,345,000. Due in annual installments with final maturity on 6/30/29. Interest ranging from 2.0% to 4.375% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues.</p>	\$ 2,345,000	\$2,345,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2010U-2 (The Kansas Board of Regents – Kansas State University Project –Union Refunding) issued on December 1, 2010 in the original amount of \$4,365,000. Due in annual installments with final maturity on 5/1/18. Interest ranging from 2.0% to 3.0% payable semi-annually, collateralized by a pledge of the University’s unrestricted revenues.</p>	\$ 1,190,000	\$ 1,760,000

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

	Principal Outstanding <u>6/30/16</u>	Principal Outstanding <u>6/30/15</u>
<p>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.</p>	-	\$ 250,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2010G-1 (The Kansas Board of Regents – Kansas State University Student Recreation Complex Expansion Project) and Taxable Revenue Bonds-Series 2010G-2 (Kansas Board of Regents – Kansas State University Student Recreation Complex Expansion Project) (Build America Bonds – Direct Payment to Issuer) issued on June 29, 2010 in the original amount of \$21,565,000. Due in annual installments with final maturity on 10/1/39. Interest ranging from 2.0% to 6.6% payable semi-annually, collateralized by a pledge of student fees.</p>	\$ 20,050,000	\$ 20,560,000
<p>Kansas Development Finance Authority Sales Tax Revenue Bonds-Series 2009L-1 & L-2 (K-State – Olathe Innovation Campus, Inc. Project) issued on September 10, 2009 in the original amount of \$30,500,000. Due in annual installments with final maturity on 9/1/39. Interest ranging from 1.9% to 6.0% payable semi-annually, collateralized by a pledge of sales tax revenue.</p>	\$ 27,805,000	\$ 28,380,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2009K-1 & K-2 (The Kansas Board of Regents – Kansas State University Child Care Facility Project) issued on July 29, 2009 in the original amount of \$6,140,000. Due in annual installments with final maturity on 11/1/39. Interest ranging from 2.625% to 5.625% payable semi-annually, collateralized by a pledge of user fees.</p>	\$ 5,670,000	\$ 5,795,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2008D (The Kansas Board of Regents – Kansas State University Student Life Center Project, Salina Campus) issued on June 15, 2008 in the original amount of \$1,600,000. Due in one installment from the Trust Estate 5/1/38. Interest at 5.10% payable semi-annually, collateralized by a pledge of student fees.</p>	\$ 1,600,000	\$ 1,600,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 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.</p>	-	\$ 15,225,000
<p>Kansas Development Finance Authority Revenue Bonds-Series 2005D (The Kansas Board of Regents – Kansas State University Research and Development Facilities Projects) issued on May 1, 2005 in the original amount of \$20,980,000. Due in annual installments with final maturity on 10/1/21. Interest ranging from 3.90% to 5.15% payable semi-annually, collateralized by a pledge of State appropriations and various university revenue funds.</p>	\$ 7,780,000	\$ 8,875,000

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

	Principal Outstanding <u>6/30/16</u>	Principal Outstanding <u>6/30/15</u>
Kansas Development Finance Authority Revenue Bonds-Series 2002E (The K-State Athletics, Inc. of Kansas State University Project) issued Capital Appreciation Bonds on March 1, 2002 in the original amount of \$3,495,889.40. Due in annual installments with final maturity on 7/1/19. Interest ranging from 5.0% to 5.4% payable semi-annually, collateralized by the pledge of revenues of the corporation.	\$ 5,805,000	\$ 7,575,000

Note 9 – Revenue Bonds Maturity Schedule

Future debt service requirements for all bonds outstanding at June 30, 2016 are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 19,100,000	\$ 19,452,306	\$ 38,552,306
2018	19,565,000	18,958,915	38,523,915
2019	19,625,000	18,256,140	37,881,140
2020	20,370,000	17,470,962	37,840,962
2021	21,235,000	16,569,570	37,804,570
2022-2026	115,155,000	68,487,797	183,642,797
2027-2031	127,975,000	44,858,880	172,833,880
2032-2036	104,085,000	22,326,958	126,411,958
2037-2041	47,125,000	7,298,563	54,423,563
2042-2044	11,355,000	920,400	12,275,400
Total	<u>\$ 505,590,000</u>	<u>\$ 234,600,491</u>	<u>\$ 740,190,491</u>

In January 2016, the University issued \$14,540,000 of Parking Projects Revenue Refunding Bonds, Series 2016A with an average interest cost of 3.3 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 \$15,225,000 of Parking Revenue Bonds, Series 2007H. As a result, the 2007H Series bonds are considered to be defeased and the liability for those bonds is not reflected in the University's financial statements. 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 \$1.2 million and will reduce future aggregate debt service payments over the next 20 years by \$1.4 million.

In April 2016, K-State Athletics, Inc. of Kansas State University issued \$48,110,000 of Revenue Refunding Bonds, Series 2016D with an average interest cost of 3.3 percent. The bond proceeds, in addition to other funds, were placed in irrevocable trusts with an escrow agent to provide for all future debt service payments to refund \$16,490,000 of Athletics Revenue Bonds, Series 2011A-1 and \$30,035,000 of Athletics Revenues Bonds, Series 2012B-1. As a result, the 2011A-1 Series and 2012B-1 Series bonds are considered to be defeased and the liability for those bonds is not reflected in the corporation's financial statements. The refunding of these bonds permitted the corporation to realize an economic gain (the present values of the debt service payments on the old and new debt) of \$6.2 million and will reduce future aggregate debt service payments over the next 20 years by \$7.9 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.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

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, 2016 of \$106,243.

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, 2016 is \$571,623.

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, 2016 is \$587,315.

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, 2016 is \$1,770,828.

In October 2015, the University and KSU Real Estate Fund, LLC entered into a 2 year and 11 month financing agreement for the purpose of the Rogers land in the amount of \$325,000. Annual lease payments are due starting October 1, 2015. The outstanding balance at June 30, 2016 is \$225,000.

In January 2016, the University and KSU Real Estate Fund, LLC entered into a 10 year financing agreement for the purpose of the Knox land in the amount of \$825,000. Annual lease payments are due starting February 1, 2016. The outstanding balance at June 30, 2016 is \$720,000.

In January 2016, the University and Kansas State University Foundation entered into a 5 year financing agreement for the purpose of the Foundation Tower in the amount of \$2,500,000. Annual lease payments are due starting February 1, 2016. The outstanding balance at June 30, 2016 is \$2,000,000.

K-State Athletics, Inc. has an available \$16,500,000 revolving line of credit with a banking institution with an interest rate of 2.75% and maturity on July 17, 2017, of which KSA has an outstanding balance of \$16,000,000 at June 30, 2016. Proceeds were used for the construction and renovation of the north end of Bill Snyder Family Stadium and Vanier Complex Phases III and IV. Pledged as collateral are all uncollected pledges associated with the Bill Snyder Family Stadium Phase III and Phase IV project.

The University is obligated for the purchase of certain equipment funded through issuance of blanket financing agreements in the amount of \$383,540 as of June 30, 2016. Payments to liquidate these obligations are scheduled as follows:

Year Ending June 30:	Total
2017	\$ 195,492
2018	167,397
2019	<u>20,651</u>
	<u>\$ 383,540</u>

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

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, 2016 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 \$20,514,975 during fiscal year 2016 and \$20,253,828 during fiscal year 2015. Individual employees contributed \$13,128,317 during fiscal year 2016 and \$12,921,440 during fiscal year 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 13.7%. They also participate in a Thrift Savings Plan with an automatic employer contribution of 1%. Employees may also contribute to this plan at variable rates, in which case the employer contributes at a variable rate up to 5%. CSRS employees are also eligible for participation in the Thrift Savings Plan, but without employer contributions. Acceptance of new member participation was terminated effective July 1, 1986.

For the fiscal years ended June 30, 2016 and June 30, 2015, the University contributed \$579,113 and \$613,849 respectively. Individual employees contributed \$348,393 and \$395,714 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.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

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.

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

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

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

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers, which includes the state and the school employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.0% of total payroll for the fiscal year ended June 30, 2015.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

The actuarially determined employer contribution rates (not including the 0.85% contribution rate for the Death and Disability Program) and the statutory contribution rates are as follows: State employees' actuarial employer rate: 10.80%; Statutory employer capped rate: 11.27/8.65%; Police and firemen actuarial employer rate: 21.36%; Statutory employer capped rate: 21.36%. Contributions to the pension plan from the University was \$10,614,981 for the year ended June 30, 2016.

In fiscal year 2015 for the state group, the Governor declared an allotment affecting the employer rate for the last two quarters of the fiscal year. The employer rate was reduced from 11.27 to 8.65 percent.

Member contribution rates as a percentage of eligible compensation in fiscal year 2015 are 5.00% or 6.00% for Public Employees and 7.15% for Police and Firemen.

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

At June 30, 2016, the University reported a liability of \$82,688,749 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, which was rolled forward to June 30, 2015. 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, 2015. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2015 Kansas State University proportion was 1.173780%, which was an increase of 0.064838% from its proportion measured as of June 30, 2014. At June 30, 2015 Kansas State University Police and Fire Group proportion was 0.194297%, which was an increase of 0.028467% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the University recognized pension expense of \$6,180,924. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred inflows of Resources</u>
Difference between expected and actual experience	\$ 12,875	\$ 2,459,332
Net difference between projected and actual earnings on pension plan investments	-	2,162,199
Changes in assumptions	-	194,993.00
Changes in proportion	4,093,866	818,041
University contributions subsequent to measurement date	<u>10,614,981</u>	<u>-</u>
Total	<u>\$ 14,721,722</u>	<u>\$ 5,634,565</u>

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2016

\$10,614,981 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$	(1,093,300)
2017		(1,093,300)
2018		(1,093,300)
2019		1,312,606
2020		439,470
Thereafter		-
Total	\$	<u>(1,527,824)</u>

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study conducted for the three-year period ending December 31, 2012.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

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, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	13	0.80
Yield driven	8	4.20
Real return	11	1.70
Real estate	11	5.40
Alternatives	8	9.40
Short-term investments	2	-.50
Total	100%	

Discount rate. The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from 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	\$ 106,679,228	\$ 82,688,749	\$ 62,315,017

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

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 dependents as for active employees and their dependents. The health insurance benefit plan is a single employer defined benefit plan administered by Kansas Health Policy Authority. The benefit is available for selection at retirement and is extended to retirees and their dependents for life. Non-Medicare participants are subsidized by the University through December 31, 2016. See the Subsequent Event notation at the end of this Note.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

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.

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.

Annual required contribution (ARC)	\$ 641,644
Interest on net OPEB obligation	791,368
Adjustment to the ARC	<u>(20,810,040)</u>
Annual OPEB cost	\$ (19,377,028)
Fiscal Year 2016 Net Employer Contributions	(756,838)
Net OPEB obligation July 1, 2015	<u>20,555,000</u>
Net OPEB obligation June 30, 2016	<u>\$ 421,134</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
2014	3,046,000	719,000	24%	18,812,000
2015	2,639,000	896,000	34%	20,555,000
2016	-19,377,028	756,838	0%	421,134

Funded Status and Funding Progress. As of June 30, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$421,134. 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 \$421,134. 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 0 percent.

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

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

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)
6/30/2014	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%
6/30/2016	0	421,134	421,134	0%	376,717,292	0%

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

In the June 30, 2016 actuarial valuation, the entry age normal, level dollar 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. Since the plan is becoming employee-pay-all in 2017, the trend rates for Medical, Prescription Drug and Administrative costs was assumed to be -100% in 2017 and 0% thereafter. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results. As the subsidy ends December 31, 2016, the amortization is set to equal the benefit payments for the period.

Subsequent Event. The University/State subsidy expires on December 31, 2016 (except for 10 Bridge Participants), based on recommendations from the Kansas Statewide Efficiency Review. This produced several changes impacting the Unfunded Actuarial Accrued Liability.

- The Normal Cost went to \$0
- The Actuarial Accrued Liability includes an adjustment for lagging benefit payments of 8.5% of gross payments. This is not needed in an ongoing valuation, but significant when the subsidy is ending.
- The fiscal 2016 Annual Required Contribution (ARC) was set to the expected benefit payments for that fiscal year.
- The fiscal 2017 ARC will be \$0. Subsequently, the Net OPEB Obligation (NOO) as of June 30, 2016 less the benefit payments, less interest on the NOO should result in an NOO of \$0 as of June 30, 2017. To the extent there is a difference between the benefit payments from expected, this will result in an ARC adjustment.
- The Annual OPEB Cost for 2013 was increased to produce an NOO as of June 30, 2016 that equals the UAAL.
- The NOO for the year ending June 30, 2016 was set to the UAAL.
- The Health Care Reform Excise Tax is not projected to have any impact on the UAAL

Kansas State University

Notes to Financial Statements

For the Year Ended June 30, 2016

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.

Note 15 – Commitments and Contingencies

At June 30, 2016, the University had outstanding commitments on various construction projects and contracts totaling approximately \$100 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, 2015, University property is insured with a \$250,000 deductible and a maximum of \$500,000,000 per occurrence. Coverage extends to buildings, machinery, equipment, and other contents (contents of buildings are covered at 10% of the value of the building) as well as business interruption. Property insurance is currently arranged through the Midwest Higher Education Compact. The University, as an agency of the State of Kansas, is covered by the Kansas Tort Claims Act, which generally limits the University's liability for general liability and personal injury claims to \$500,000 for any number of claims arising out of a single occurrence or event. The University does not carry separate comprehensive general liability or personal injury insurance for the University as a whole. The University is also covered by the Regent's umbrella insurance policy for automobile liability. The University is not aware of any significant outstanding claims as of June 30, 2016.

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.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

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 and Change in Net Position is (\$1,066,847). KSUIC paid the University \$38,713 for support services during the fiscal year ending June 30, 2016. Investments held by KSUIC at fiscal year end total \$1,612,413 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, 2015, KSURF had accounts payable to the University in the amount of \$10,076 and investments totaling \$3,978,779 on the Statement of Net Position. Operating Income on the Statement of Revenues, Expenses and Changes in Net Position for KSURF totaled \$246,380 and the Change in Net Position was \$154,926 for the fiscal year.

Kansas State University Veterinary Clinical Outreach, Inc. (KSUVCO) – The Change in Net Position is \$168,699 on the June 30, 2016 Statement of Revenues, Expenses and Change in Net Position. Investments at fiscal year end total \$2,904,268 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 (\$1,917,768) on the June 30, 2016 Statement of Revenue, Expenses and Change in Net Position are revenues received from the University and related entities in the amount of \$4,079,657. The Union has a note payable due to the University in the amount of \$500,000, which is to be repaid in equal annual installments of \$80,000 per year for the years 2017 through 2022 and a final payment of \$20,000 in 2023. This loans bears no interest. Investments at fiscal year end total \$19,897 on the Statement of Net Position.

Kansas State University Foundation (the Foundation) – The purpose of the Foundation is to encourage, receive and hold in trust any real or personal property given for the use of 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 3,300 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). In accordance with 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.

Kansas State University
Notes to Financial Statements
For the Year Ended June 30, 2016

The following items are included in the Foundation's Net Assets as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowments	\$ (12,424,131)	\$ 1,076,603	\$ 365,374,271	\$ 354,026,743
Board designated endowments	28,397,863	-	-	28,397,863
Board policy designated to address underwater endowments	37,613,840	-	-	37,613,840
Quasi and term endowments	-	85,183,992	-	85,183,992
Non-endowment funds	12,810,474	42,363,841	-	55,174,315
Donor-restricted expendable gifts	-	166,753,157	-	166,753,157
Program related real estate	-	280,500	3,080,000	3,360,500
Net real estate and other depreciable property	-	7,683,152	-	7,683,152
Pledges receivable	14,898	53,859,104	4,802,187	58,676,189
Other assets and accrued income	4,953,306	2,396,391	2,027,196	9,376,893
Cash surrender value	276,450	3,039,173	2,470,386	5,786,009
Receivables from estates	-	1,576,309	1,301,273	2,877,582
Unitrust and annuity liabilities	-	(3,942,841)	(13,918,152)	(17,860,993)
Funds held for others	-	(11,260,474)	(255,312)	(11,515,786)
Accrued liabilities	(2,886,047)	(3,224,695)	-	(6,110,742)
	<u>(2,886,047)</u>	<u>(3,224,695)</u>	<u>-</u>	<u>(6,110,742)</u>
 Total Net Assets	 <u>\$ 68,756,653</u>	 <u>\$ 345,784,212</u>	 <u>\$ 364,881,849</u>	 <u>\$ 779,422,714</u>

Kansas State University

Notes to Financial Statements For the Year Ended June 30, 2016

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, 2016 were as follows:

	June 30, 2016	2016 Fair Value Measurements		
		Level 1	Level 2	Level 3
Investments by fair value level				
Equity securities	\$ 69,694,067	\$ 69,694,067	\$ -	\$ -
Mutual funds	64,665,667	64,665,667	-	-
U.S. Government and agency obligations	4,415,503	-	4,415,503	-
Corporate bonds	55,775	-	55,775	-
Futures contracts	45,713,491	44,518,850	1,194,641	-
Closely held common stock	107,360,639	-	-	107,360,639
Real estate held for investment	45,386,918	-	-	45,386,918
	<u>\$ 337,292,060</u>	<u>\$ 178,878,584</u>	<u>\$ 5,665,919</u>	<u>\$ 152,747,557</u>
Investments measured at the net asset value (NAV)				
Equity long/short hedge funds	\$ 56,158,838			
Event-driven hedge funds	24,688,940			
Equity securities	139,629,153			
Venture capital	45,561,377			
Domestic private equity	23,337,064			
International private equity	13,637,681			
Private capital distressed debt	5,069,291			
Natural resources	13,273,338			
Other securities and investments	134,432			
Real estate funds	<u>13,599,762</u>			
	<u>\$ 335,089,876</u>			
Total investments	<u>\$ 672,381,936</u>			

For the fiscal year ended June 30, 2016, the total return of the Endowment Pool was -1.93%.

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.

Kansas State University

Notes to Financial Statements
For the Year Ended June 30, 2016

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 \$2,307,249. Payments were made to the University totaling \$1,682,528 during the fiscal year ending June 30, 2016. Revenue received from the University was \$75,253. Investments held by Olathe at fiscal year end total \$1,499,714.

K-State Italy – This was the first year of operations for K-State Italy. Revenues received from the University totaled \$55,453.

K-State Diagnostic and Analytical Services, Inc. (KDAS) – The Change in Net Position on the June 30, 2016 Statement of Revenues, Expenses and Changes in Net Position was \$5,331,595. Revenues received from the University totaled \$993,889 and payments to the University totaled \$5,417,794.

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 (\$46,932,016). Payments were made to the University and its affiliates totaling \$9,428,983 during the fiscal year ending June 30, 2016. Revenue received from the University was \$2,437,436. Investments held by Athletics at fiscal year end total \$36,713,779 on the Statement of Net Position. Pledges receivable, which consist of unconditional promises to give cash and other assets total \$22,012,687. 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	\$ 177,809,456	\$ 29,581,383	\$ 12,898	\$ -	\$ -	\$ 207,403,737
Research	93,353,240	54,696,765	335,790	-	-	148,385,795
Public Service	52,928,326	21,537,786	20,817	-	-	74,486,929
Academic Support	32,790,518	15,798,309	13,436	-	-	48,602,263
Student Service	47,895,900	29,914,539	151	-	-	77,810,590
Institutional Support	24,066,315	8,916,158	-	-	-	32,982,473
Operations and Maintenance of Plant	17,233,814	12,523,411	15,780,972	-	-	45,538,197
Depreciation	-	-	-	-	46,585,984	46,585,984
Scholarships and Fellowships	-	-	-	33,566,815	-	33,566,815
Auxiliary Enterprises	25,050,972	14,444,964	2,642,016	-	-	42,137,952
Other	(614,393)	485,323	-	-	-	(129,070)
Total Operating Expenses	<u>\$ 470,514,148</u>	<u>\$ 187,898,638</u>	<u>\$ 18,806,080</u>	<u>\$ 33,566,815</u>	<u>\$ 46,585,984</u>	<u>\$ 757,371,665</u>

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Kansas State University
Annual Financial Report
For the fiscal year ended June 30, 2016
is available at:
<http://www.k-state.edu/finsvcs/financialreporting/reports.html>

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