

Kansas State University Foundation

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2016 and 2015



Kansas State University Foundation
June 30, 2016 and 2015

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Independent Auditor's Report

The Board of Directors of
Kansas State University Foundation
Manhattan, Kansas

We have audited the accompanying consolidated financial statements of Kansas State University Foundation and its supporting organizations (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

The Board of Directors of
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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kansas State University Foundation and its supporting organizations as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Kansas City, Missouri
September 30, 2016

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 Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Change in net assets	\$ 2,934,271	\$ (6,195,869)
Items not requiring (providing) operating activities cash flows		
Depreciation	970,492	659,503
Amortization of bond issuance premium	(22,961)	(22,962)
Net realized and unrealized gains on investments	(22,979,566)	(2,318,156)
Contributions and investment income received restricted for long-term investment and capital projects	(32,891,354)	(40,289,293)
Contributions for term endowment	(6,579,552)	(8,714,395)
Non-cash contributions	(23,427,268)	(16,938,390)
Non-cash transfers to Kansas State University	17,645,217	8,061,672
Net actuarial losses on unitrust and annuity obligations	140,107	138,926
Loss on disposal of long-lived assets	-	67,537
Changes in		
Pledges receivable	4,584,902	(2,057,147)
Receivables from estates	(255,244)	1,516,503
Loans receivable	30,760	45,483
Other assets and accrued income	1,022,305	(2,590,235)
Accounts payable and accrued liabilities	(11,806,509)	12,164,540
Assets held for others	132,495	12,209
	(70,501,905)	(56,460,074)
Investing Activities		
Purchase of investments	(127,301,599)	(216,472,802)
Purchase of real estate	(946,755)	(5,883,853)
Proceeds from sale of investments	150,790,716	182,705,568
Expenditures for property	(7,137,095)	(1,089,816)
Proceeds from sale of long-lived assets	509,000	14,500
Cash surrender value of life insurance policies	(229,351)	(553,803)
	15,684,916	(41,280,206)
Financing Activities		
Proceeds from contributions and investment income restricted for long-term investment and capital projects	32,891,354	40,289,293
Contributions for term endowment	6,579,552	8,714,395
Proceeds from issuance of long-term debt	105,703	9,409,215
Principal payments on long-term debt	(1,566,767)	(289,589)
Net borrowings under line of credit agreement	960,366	-
Proceeds from issuance of annuities and trusts payable	252,349	314,998
Payments on annuities and trusts payable	(2,583,257)	(717,956)
	36,639,300	57,720,356
Change in Cash and Cash Equivalents	(18,177,689)	(40,019,924)
Cash and Cash Equivalents, Beginning of Year	80,316,007	120,335,931
Cash and Cash Equivalents, End of Year	\$ 62,138,318	\$ 80,316,007
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	\$ 500,439	\$ 439,593
Transfer from investment to property	8,010,268	-
Receivable for sale of the Foundation building	2,000,000	-

See Notes to Consolidated Financial Statements

Kansas State University Foundation
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The purpose of Kansas State University Foundation (the Foundation) is to encourage, receive and hold in trust any real or personal property given for the use of Kansas State University, its faculty and students (the University); 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.

Supporting Organizations and Principles of Consolidation

The Foundation's financial statements include three supporting organizations, the Kansas State University Golf Course Management and Research Foundation, formed in 1997, the Foundation for Engineering at Kansas State University, Inc., formed in 2009 and the Kansas State University Charitable Real Estate Foundation (KSUCREF), formed in 2012. The financial statements of these organizations have been consolidated with the Foundation's financial statements in accordance with accounting principles generally accepted in the United States of America. All significant inter-organizational accounts and transactions are eliminated in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2016 and 2015, cash equivalents consisted primarily of uninsured money market mutual funds totaling \$53,326,177 and \$70,807,982, respectively, and certificates of deposit.

At June 30, 2016, the Foundation's cash accounts exceeded federally insured limits by approximately \$9,841,000.

Kansas State University Foundation
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

Investments and Investment Return

Investments in equity securities, mutual funds and futures contracts having a readily determinable fair value and all debt securities are carried at fair value. Investments in pooled separate accounts, private capital funds and hedge funds are recorded at the estimated net asset value per share, as a practical expedient to fair value, of the investments. Closely held stock is recorded at fair value as determined by a third party appraiser hired by the company for which the Foundation holds stock. The Foundation has elected to record other investments consisting primarily of real estate at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as temporarily restricted and then released from restriction. Other investment return is reflected in the consolidated statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated to the individual endowments using the unitized share methodology similar to that of a mutual fund. Each unit represents a proportionate interest in the underlying assets and associated earnings and distributions proportionate to the units.

Receivables

The Foundation reports pledges receivable expected to be collected within one year at net realizable value. Pledges expected to be collected in future years are initially reported at fair value determined using the discounted present value of future contributions. The Foundation provides an allowance for doubtful collections, which is based upon a review of outstanding pledge receivables, historical collection information and existing economic conditions. Pledge receivables are considered past due if they are not received by their payment instrument due date. Delinquent pledges are written off based on individual credit evaluation and specific circumstances of the donor.

Receivables from estates are recorded at the time the Foundation is notified of the death of a donor and the amount receivable from the estate can be reasonably measured.

Loans receivable, including student loans, real estate mortgages and other loans, are recorded at amounts advanced to borrowers less principal repayments received. Uncollectible loans are written off using the direct write-off method. A loan is considered uncollectible when management determines the borrower is failing to meet repayment terms or other reasons. Interest income is recognized as earned.

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Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset.

The Foundation's capitalization policy is to capitalize any fixed asset over \$1,000 at cost.

Long-lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairments were recognized during the years ended June 30, 2016 and 2015.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Contributions

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

Gifts of land, buildings, equipment and other long-lived assets are reported at estimated or appraised values at the time of receipt as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value, determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

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Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Contributions Establishing Charitable Trusts

The Foundation accepts donor contributions to establish trust agreements in exchange for a named beneficiary to receive a fixed dollar annual return or a specific percentage of the fair value of the trust assets for the beneficiary's lifetime or a specific time period. A portion of the donation is considered to be a charitable contribution and the remaining portion represents a liability equal to the present value of future payments. The liability is revalued annually based on actuarially computed present values.

Income Taxes

Pursuant to determination letters received from the Internal Revenue Service (IRS), the Foundation is generally exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as a public foundation. The Foundation is subject to income tax on the unrelated business income. The Foundation files tax returns in the U.S. Federal jurisdiction.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the date the transaction occurs.

Operational Service Charges and Management Fees

The Foundation provides services to the University, its colleges and other entities affiliated with the University for which the Foundation is reimbursed. Revenue from these services is recognized by the Foundation as they provide such services.

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Notes to Consolidated Financial Statements
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Note 2: Investments and Investment Return

Investment management is governed by policies and procedures established by the Asset Management Committee, a committee of the Board of Directors, in collaboration with staff and consultants. Staff implements the policies through: 1) the selection of investment strategies; 2) the hiring, monitoring and changing of investment managers; and 3) rebalancing the portfolios. Investment results are monitored by the committee quarterly through manager and portfolio performance and due diligence reporting.

Private capital and hedge funds are included in the endowment pool to diversify assets, provide portfolio return enhancement and dampen volatility. Hedge fund managers run proprietary strategies employing securities and instruments such as cash, stocks, partnerships, bonds and derivative instruments including options, futures and swaps in various combinations, sometimes shorting various securities and employing leverage to construct desired risk/return characteristics that are less correlated to the major asset classes.

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 and 2015 were as follows:

	2016		
	Pooled Fund Endowment Pool	Other Investments	Total Investments
Equity securities	\$ 68,940,669	\$ 753,398	\$ 69,694,067
Mutual funds			
Equity securities	-	30,852,450	30,852,450
Fixed income securities	17,693,647	16,119,570	33,813,217
Pooled separate funds			
Equity securities	129,323,732	10,305,421	139,629,153
U.S. Government and agency obligations	-	4,415,503	4,415,503
Corporate bonds and other fixed income securities	-	55,775	55,775
Private capital			
Real estate investments	13,599,762	-	13,599,762
Venture capital	45,112,609	448,768	45,561,377
Domestic private equity	23,337,064	-	23,337,064
International private equity	13,637,681	-	13,637,681
Private capital distressed debt	5,069,291	-	5,069,291
Natural resources	13,273,338	-	13,273,338
Hedge funds			
Absolute return	20,625,081	4,063,859	24,688,940
Long/short equity	56,158,838	-	56,158,838
Futures contracts			
Money market mutual fund	42,250,493	-	42,250,493
Restricted cash - margin requirement	2,268,357	-	2,268,357
Open trade equity	1,194,641	-	1,194,641
Closely held common stock	-	107,360,639	107,360,639
Real estate held for investment	-	45,386,918	45,386,918
Other securities and investments	-	134,432	134,432
	<u>\$ 452,485,203</u>	<u>\$ 219,896,733</u>	<u>\$ 672,381,936</u>

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Notes to Consolidated Financial Statements
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	2015		
	Pooled Fund Endowment Pool	Other Investments	Total Investments
Equity securities	\$ 12,754,477	\$ 565,707	\$ 13,320,184
Mutual funds			
Equity securities	44,627,060	30,930,873	75,557,933
Fixed income securities	19,796,127	16,325,258	36,121,385
Pooled separate funds			
Equity securities	146,598,780	8,328,067	154,926,847
U.S. Government and agency obligations	-	4,478,540	4,478,540
Corporate bonds and other fixed income securities	-	55,232	55,232
Private capital			
Real estate investments	10,429,835	-	10,429,835
Venture capital	43,490,514	688,403	44,178,917
Domestic private equity	24,047,978	-	24,047,978
International private equity	14,763,586	-	14,763,586
Private capital distressed debt	6,498,210	-	6,498,210
Natural resources	13,653,521	-	13,653,521
Hedge funds			
Absolute return	33,481,700	6,926,794	40,408,494
Long/short equity	59,691,341	1,943,165	61,634,506
Futures contracts			
Money market mutual fund	41,861,426	-	41,861,426
Restricted cash - margin requirement	7,413,467	-	7,413,467
Open trade equity	(1,821,144)	-	(1,821,144)
Closely held common stock	-	77,445,632	77,445,632
Real estate held for investment	-	48,950,185	48,950,185
Other securities and investments	-	42,831	42,831
	<u>\$ 477,286,878</u>	<u>\$ 196,680,687</u>	<u>\$ 673,967,565</u>

The Foundation's endowment pool strives to achieve long term capital appreciation and consistent income by utilizing a "total return investment strategy." The Foundation uses an inflation adjusted distribution policy attempting to provide a stable revenue stream to the University while maintaining intergenerational equity. The distributions from the endowment pool are calculated by adjusting the prior year's distribution amount annually for inflation. To avoid potential unconscionable under-distributions or unsustainable over-distributions relative to the endowment pool market value, the annual inflation adjusted distribution is limited to maximum and minimum total distributions to purpose. The maximum distributions to purpose are 4.5 percent of market value and the minimum distributions are 3 percent, both of which are calculated annually using the market value at the beginning of the fiscal year. This action is consistent with the Board of Directors' long term strategic plans and attempts to treat all generations equitably and protect future purchasing power.

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A volatility cap overlay is in effect for the Endowment Pool. Ten percent of the Endowment Pool market value was placed in money market funds as potential collateral on exchange-traded futures contracts should volatility of the replicated portfolio reach the trigger of 25%. Until that volatility level is reached, exchange-traded futures contracts are held to replicate exposures of that ten percent of the Endowment Pool, and collateral of \$2,268,357 and \$7,413,467 is held in a margin account at Goldman Sachs as of June 30, 2016 and 2015, respectively.

Investment managers' fees totaled approximately \$4,922,000 and \$4,073,000 for the years ended June 30, 2016 and 2015, respectively.

Total investment return for the years ended June 30, 2016 and 2015 is comprised of the following:

	2016	2015
Interest and dividends, net of Operational Service Charges and Management Fees	\$ (6,218,650)	\$ (3,737,637)
Net realized and unrealized gains on investments reported at fair value	22,979,566	2,318,156
	\$ 16,760,916	\$ (1,419,481)

Alternative Investments

The fair value of alternative investments that have been estimated using the net asset value per share as a practical expedient consist of the following at June 30, 2016 and 2015:

	June 30, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled separate funds (A)				
Equity securities	\$ 139,629,153	\$ -	Monthly	5-45 days
Private capital (B)				
Real estate investments	13,599,762	-	None	None
Venture capital	45,561,377	27,080,968	None	None
Domestic private equity	23,337,064	17,340,520	None	None
International private equity	13,637,681	14,041,421	None	None
Private capital distressed debt - Liquid	1,545,778	7,136,400	Annual	120 days
Private capital distressed debt - Illiquid	3,523,513	652,798	None	None
Natural resources	13,273,338	12,545,861	None	None
Hedge funds				
Absolute return (C)	24,688,940	-	Monthly to Annually	45 days
Long/short equity (D)	56,158,838	-	Monthly to Annually	30-90 days

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	June 30, 2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled separate funds (A)				
Equity securities	\$ 154,926,847	\$ -	Monthly	5-45 days
Private capital (B)				
Real estate investments	10,429,835	-	None	None
Venture capital	44,178,917	17,397,843	None	None
Domestic private equity	24,047,978	17,340,520	None	None
International private equity	14,763,586	14,041,421	None	None
Private capital distressed debt - Liquid	1,955,128	2,136,400	Annual	120 days
Private capital distressed debt - Illiquid	4,543,082	652,798	None	None
Natural resources	13,653,521	6,145,861	None	None
Hedge funds				
Absolute return (C)	40,408,494	-	Monthly to Annually	30-90 days
Long/short equity (D)	61,634,506	-	Monthly to Annually	30-90 days

- (A) This category includes investments in pooled separate accounts which hold exchange-traded equity securities, fixed income securities and a multi-strategy commodities fund. While the underlying securities in these accounts are primarily highly liquid, exchange-traded securities, the nature of this type of account only allows for monthly liquidity at a month end net asset value.
- (B) This category includes investments in private equity and venture capital that invest primarily in domestic and international private companies. Private capital funds are structured as closed-end, commitment-based investment funds where a specified amount of capital is committed upon inception of the fund which is then drawn down over a period of three to five years, and distributions are received through the liquidation of underlying assets of the fund. The typical term of these investments is 12-15 years. Such funds generally do not provide redemption options for investors.
- (C) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in U.S. common stocks, global real estate projects and arbitrage investments. Certain funds may have the ability to impose a suspension or postponement of redemptions until further notice (a "Gate"). In addition, certain funds may delay payment of a portion of redemption proceeds (a "Holdback") until the annual audited financial statements are distributed.

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- (D) This category includes investments in hedge funds that take both long and short positions, primarily in U.S. common stocks. Management of the funds has the ability to shift investments among differing investment strategies. Certain funds may have the ability to impose a suspension or postponement of redemptions until further notice (a “Gate”). In addition, certain funds may delay payment of a portion of redemption proceeds (a “Holdback”) until the annual audited financial statements are distributed.

In addition to the funding commitments identified above, the Foundation was not committed to invest in any additional, new alternative investments as of June 30, 2016.

Note 3: Disclosures About Fair Value of Assets and Liabilities

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

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

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Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016 and 2015:

	Fair Value	2016 Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents				
Money market mutual funds	\$ 53,326,177	\$ 53,326,177	\$ -	\$ -
Investments				
Equity securities	69,694,067	69,694,067	-	-
Mutual funds				
Equity securities	30,852,450	30,852,450	-	-
Fixed income securities	33,813,217	33,813,217	-	-
Pooled separate funds				
Equity securities				
measured at net asset value (A)	139,629,153	-	-	-
U.S. Government and				
agency obligations	4,415,503	-	4,415,503	-
Corporate bonds and other				
fixed income securities	55,775	-	55,775	-
Private capital				
Real estate investments				
measured at net asset value (A)	13,599,762	-	-	-
Venture capital				
measured at net asset value (A)	45,561,377	-	-	-
Domestic private equity				
measured at net asset value (A)	23,337,064	-	-	-
International private equity				
measured at net asset value (A)	13,637,681	-	-	-
Private capital distressed debt				
measured at net asset value (A)	5,069,291	-	-	-
Natural resources				
measured at net asset value (A)	13,273,338	-	-	-
Hedge funds				
Absolute return				
measured at net asset value (A)	24,688,940	-	-	-
Long/short equity				
measured at net asset value (A)	56,158,838	-	-	-
Futures contracts				
Money market mutual fund	42,250,493	42,250,493	-	-
Restricted cash - margin requirement	2,268,357	2,268,357	-	-
Open trade equity	1,194,641	-	1,194,641	-
Closely held common stock	107,360,639	-	-	107,360,639
Real estate held for investment	45,386,918	-	-	45,386,918
Other securities and				
investments (A)	134,432	-	-	-
	<u>\$ 725,708,113</u>			

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	Fair Value	2015 Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents				
Money market mutual funds	\$ 70,807,982	\$ 70,807,982	\$ -	\$ -
Investments				
Equity securities	13,320,184	13,320,184	-	-
Mutual funds				
Equity securities	75,557,933	75,557,933	-	-
Fixed income securities	36,121,385	36,121,385	-	-
Pooled separate funds				
Equity securities measured at net asset value (A)	154,926,847	-	-	-
U.S. Government and agency obligations	4,478,540	18,091	4,460,449	-
Corporate bonds and other fixed income securities	55,232	-	55,232	-
Private capital				
Real estate investments measured at net asset value (A)	10,429,835	-	-	-
Venture capital measured at net asset value (A)	44,178,917	-	-	-
Domestic private equity measured at net asset value (A)	24,047,978	-	-	-
International private equity measured at net asset value (A)	14,763,586	-	-	-
Private capital distressed debt measured at net asset value (A)	6,498,210	-	-	-
Natural resources measured at net asset value (A)	13,653,521	-	-	-
Hedge funds				
Absolute return measured at net asset value (A)	40,408,494	-	-	-
Long/short equity measured at net asset value (A)	61,634,506	-	-	-
Futures contracts				
Money market mutual fund	41,861,426	41,861,426	-	-
Restricted cash - margin requirement	7,413,467	7,413,467	-	-
Open trade equity	(1,821,144)	-	(1,821,144)	-
Closely held common stock	77,445,632	-	-	77,445,632
Real estate held for investment	48,950,185	-	-	48,950,185
Other securities and investments (A)	42,831	-	-	-
	<u>\$ 744,775,547</u>			

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

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Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2016. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

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

Fair value determinations for Level 3 measurements of securities, closely held stock and real estate investments are the responsibility of management. Management obtains fair value estimates from the investment managers or fair value specialist on a monthly, quarterly or annual basis. For real estate investments, management obtains fair value estimates from both internal and external valuation sources, including county tax appraisals and historic comparable sales information. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

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Level 3 Reconciliation

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

	Asset (Closely Held Common Stock)	Asset (Real Estate Held for Investment)	Total
Balance, July 1, 2014	\$ 69,370,022	\$ 42,524,497	\$ 111,894,519
Total realized and unrealized gains included in change in net assets	9,075,660	130,883	9,206,543
Purchases/donations	-	7,392,055	7,392,055
Sales/redemptions	(1,000,050)	(1,097,250)	(2,097,300)
Balance, June 30, 2015	77,445,632	48,950,185	126,395,817
Total realized and unrealized gains included in change in net assets	31,015,295	2,006,099	33,021,394
Purchases/donations	-	2,740,902	2,740,902
Sales/redemptions	(1,100,288)	(8,310,268)	(9,410,556)
Balance, June 30, 2016	<u>\$ 107,360,639</u>	<u>\$ 45,386,918</u>	<u>\$ 152,747,557</u>

Realized and unrealized gains and losses for items reflected in the table above are included in change in net assets in the consolidated statements of changes in net assets as follows:

	2016	2015
Total realized gains	\$ 193,043	\$ 353,979
Change in unrealized gains relating to assets still held at the statement of financial position date	32,828,351	8,852,564

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Unobservable (Level 3) Inputs

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

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
June 30, 2016				
Closely held common stock	\$ 107,360,639	Capitalization of Cash Flow	Risk free rate - 2.7% WACC - 10.9% Long-term growth - 4.0%	30%
		Market approach		
		Guideline Company Method	Lack of marketability discount - 32%	50%
		Private Transaction Method	Minority interest discount - 20%	20%
Real estate held for investment	45,386,918	Sales Comparison	Property sales of like properties Comparative advantages and deficiencies	50%
		Property tax appraisals	Values determined by local county	50%
June 30, 2015				
Closely held common stock	\$ 77,445,632	Capitalization of Cash Flow	Risk free rate - 2.4% WACC - 10.7% Long-term growth - 4.0%	30%
		Market approach		
		Guideline Company Method	Minority interest discount - 21%	50%
		Private Transaction Method	Minority interest discount - 21%	20%
Real estate held for investment	48,950,185	Sales Comparison	Property sales of like properties Comparative advantages and deficiencies	40%
		Property tax appraisals	Values determined by local county	60%

Note 4: Endowment

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). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body has interpreted the State of Kansas Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance

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with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The composition of net assets by type of endowment fund at June 30, 2016 and 2015, was as follows:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowments				
Market value of endowments	\$ (12,424,131)	\$ 1,076,603	\$ 365,374,271	\$ 354,026,743
Board-designated endowments				
Board designated	28,397,863	-	-	28,397,863
Board policy to address underwater endowments	37,613,840	-	-	37,613,840
Quasi and term endowments	-	85,183,992	-	85,183,992
	<u>\$ 53,587,572</u>	<u>\$ 86,260,595</u>	<u>\$ 365,374,271</u>	<u>\$ 505,222,438</u>

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowments				
Market value of endowments	\$ (3,262,378)	\$ 19,105,921	\$ 347,638,927	\$ 363,482,470
Board-designated endowments				
Board designated	36,143,494	-	-	36,143,494
Board policy to address underwater endowments	36,999,775	-	-	36,999,775
Quasi and term endowments	-	83,151,761	-	83,151,761
	<u>\$ 69,880,891</u>	<u>\$ 102,257,682</u>	<u>\$ 347,638,927</u>	<u>\$ 519,777,500</u>

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The following items are included in the Net Assets at June 30, 2016 and 2015:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Funds (per previous table)	\$ 53,587,572	\$ 86,260,595	\$ 365,374,271	\$ 505,222,438
Non-endowment funds available for expenditure for purpose	12,810,624	42,363,841	-	55,174,465
Donor-restricted expendable gifts	-	166,753,007	-	166,753,007
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>\$ 68,756,803</u>	<u>\$ 345,784,062</u>	<u>\$ 364,881,849</u>	<u>\$ 779,422,714</u>

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Funds (per previous table)	\$ 69,880,891	\$ 102,257,682	\$ 347,638,927	\$ 519,777,500
Non-endowment funds available for expenditure for purpose	12,673,534	39,272,494	-	51,946,028
Donor-restricted expendable gifts	-	145,694,342	-	145,694,342
Program related real estate	-	274,000	2,464,000	2,738,000
Net real estate and other depreciable property	-	8,043,680	-	8,043,680
Pledges receivable	7,279	57,137,309	6,116,503	63,261,091
Other assets and accrued income	4,105,516	2,361,489	2,044,208	8,511,213
Cash surrender value	321,338	3,049,821	2,185,499	5,556,658
Receivables from estates	-	1,117,388	1,504,950	2,622,338
Unitrust and annuity liabilities	-	(4,121,790)	(14,337,526)	(18,459,316)
Funds held for others	-	(11,334,960)	(48,331)	(11,383,291)
Accrued liabilities	(1,819,800)	-	-	(1,819,800)
	<u>\$ 85,168,758</u>	<u>\$ 343,751,455</u>	<u>\$ 347,568,230</u>	<u>\$ 776,488,443</u>

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Changes in endowment net assets for the years ended June 30, 2016 and 2015, were:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets -				
Beginning of year	\$ 69,880,891	\$ 102,257,682	\$ 347,638,927	\$ 519,777,500
Investment return	(12,672,819)	(5,592,433)	344,487	(17,920,765)
Contributions and collections on pledges and estates	113,756	7,611,928	17,372,633	25,098,317
Appropriation of endowment assets for expenditure and change in donor designation	<u>(3,734,256)</u>	<u>(18,016,582)</u>	<u>18,224</u>	<u>(21,732,614)</u>
Endowment net assets -				
End of year	<u>\$ 53,587,572</u>	<u>\$ 86,260,595</u>	<u>\$ 365,374,271</u>	<u>\$ 505,222,438</u>
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of year	\$ 71,572,944	\$ 117,145,749	\$ 335,018,650	\$ 523,737,343
Investment return	(2,163,407)	(7,776,166)	(588,774)	(10,528,347)
Contributions and collections on pledges and estates	58,725	10,734,802	14,077,035	24,870,562
Appropriation of endowment assets for expenditure and change in donor designation	-	(17,846,703)	(867,984)	-
Transfers to Board-designated	<u>412,629</u>	<u>-</u>	<u>-</u>	<u>412,629</u>
Endowment net assets -				
End of year	<u>\$ 69,880,891</u>	<u>\$ 102,257,682</u>	<u>\$ 347,638,927</u>	<u>\$ 519,777,500</u>

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Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2016 and 2015, consisted of:

	2016	2015
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	\$365,374,271	\$347,638,927
Portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	\$ 86,260,595	\$102,257,682

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$12,424,131 and \$3,262,378 at June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds, charitable gift annuity's, endowed charitable gifts of real estate and endowed unitrust held by the Foundation.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. For the fiscal years ended June 30, 2016 and 2015, the total return of the Endowment Pool was -1.93% and -0.88%, respectively.

The Foundation's Board of Directors determines the Endowment Pool's percentage distribution of total return to the participating funds. The distributions approved by the Board of Directors are:

1. A distribution to purpose, annually adjusted by inflation but always within a range between 3 and 5 percent of the market value. This percentage was made available to the participating funds for spending. This inflation based method is intended to address current University needs as well as preserve purchasing power for future generations.
2. 1.40% of the market value for fiscal year 2016 will be distributed to the Foundation for allocation as determined each year by the Board of Directors.
3. The balance of the total return remains in the participating funds.

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Term endowed accounts are invested in the same manner as permanently endowed accounts and share the same endowment pool operating costs. They differ from permanently endowed accounts in that quasi-endowment distributions may utilize the donor's gift and earnings/investment growth to make the distribution to purpose and the distribution rate is specific to the donor memo of understanding.

A donor to a term endowment account may choose from three distribution options:

1. Fixed dollar option pays distributions in multiples of \$500; or
2. Fixed percentage option pays distributions of 4, 5, 6 or 8 percent of market value annually; or
3. Situational option pays distributions of 50 or 100 percent of tuition and fees for the number of hours taken by an average full-time student.

Term endowed accounts are to be established at a financial amount expected to last for 10 years or more.

The Foundation's policy regarding distributions on underwater funds will not allow distributions on funds more than 15% underwater.

For funds that are underwater 0-7.5%, the full distribution as a participating account will be made; for funds 7.51% to 15%, it will be a 50% distribution of the amount of a participating account.

Note 5: Asset Holdings

The Foundation has a general policy of investing assets to maximize rates of return, consistent with sound and safe business principles. The Foundation also 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 and other direct benefits provided to the University 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 (formerly Ramada Inn) and Wildcat BP (formerly University Amoco) – 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. Noninterest-bearing accommodation loans are available to faculty and staff when their salary payment cannot be processed by the University by payday.

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Total real estate held for investment for the benefit of Kansas State University at June 30, 2016 and 2015 was \$45,386,918 and \$48,950,185, respectively (see *Note 2*).

Note 6: Pledges Receivable

Pledges receivable consisted of the following at June 30, 2016 and 2015:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Due in less than one year	\$ 4,500	\$ 17,250,985	\$ 2,056,128	\$ 19,311,613
Due in one to five years	12,000	37,892,704	3,133,987	41,038,691
Due thereafter	-	5,047,945	100	5,048,045
	16,500	60,191,634	5,190,215	65,398,349
Less				
Allowance for uncollectible contributions	192	702,163	60,546	762,901
Unamortized discount	1,410	5,630,367	327,482	5,959,259
	\$ 14,898	\$ 53,859,104	\$ 4,802,187	\$ 58,676,189
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Due in less than one year	\$ 4,000	\$ 13,966,521	\$ 2,612,353	\$ 16,582,874
Due in one to five years	4,000	44,956,231	4,007,253	48,967,484
Due thereafter	-	5,940,844	84,551	6,025,395
	8,000	64,863,596	6,704,157	71,575,753
Less				
Allowance for uncollectible contributions	174	1,411,643	145,904	1,557,721
Unamortized discount	547	6,314,644	441,750	6,756,941
	\$ 7,279	\$ 57,137,309	\$ 6,116,503	\$ 63,261,091

Discount rate used on pledges receivable was 3.50% and 3.25% at June 30, 2016 and 2015, respectively.

As of June 30, 2016, approximately 38% of pledges receivable was due from three donors. As of June 30, 2015, approximately 25% of pledges was due from two donors.

See significant estimate discussion regarding the allowance for doubtful collections in *Note 15*.

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Approximately \$24,515,000 and \$28,221,000 of pledges receivable were due from related parties such as members of the board of directors and trustees, employees of the Foundation and University affiliated organizations and colleges, as of June 30, 2016 and 2015, respectively.

Note 7: Property and Equipment

Property and equipment at June 30, 2016 and 2015 consisted of:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 13,461,750	\$ 2,735,657
Furniture and equipment	1,632,305	1,300,867
Land	415,996	-
Other	220,652	229,736
	<u>15,730,703</u>	<u>4,266,260</u>
Less accumulated depreciation and amortization	<u>(578,850)</u>	<u>(2,641,915)</u>
	<u>\$ 15,151,853</u>	<u>\$ 1,624,345</u>

Golf Course assets are reported net of accumulated depreciation on the Foundation's consolidated financial statements. Property and equipment for the Golf Course consist of:

	<u>2016</u>	<u>2015</u>
Land and land improvements	\$ 3,660,845	\$ 3,624,212
Buildings and improvements	5,167,716	5,167,716
Other	1,717,950	1,568,937
	<u>10,546,511</u>	<u>10,360,865</u>
Less accumulated depreciation and amortization	<u>(2,863,359)</u>	<u>(2,317,185)</u>
	<u>\$ 7,683,152</u>	<u>\$ 8,043,680</u>

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Note 8: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 are available for the following purposes or periods:

	<u>2016</u>	<u>2015</u>
Departmental support/Excellence	\$ 202,070,799	\$ 166,707,241
Student scholarships and support	61,157,192	71,941,406
Property, plant and equipment	59,204,575	77,175,793
Professorships and faculty support	12,077,216	15,847,629
Research	11,274,280	12,079,386
	<u>\$ 345,784,062</u>	<u>\$ 343,751,455</u>

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2016 and 2015 are restricted to support:

	<u>2016</u>	<u>2015</u>
Student scholarships and support	\$ 203,923,839	\$ 192,025,935
Departmental support	66,185,256	62,836,083
Professorships and faculty support	73,986,479	72,279,626
Research	15,968,123	15,379,295
Property, plant and equipment	4,818,152	5,047,291
	<u>\$ 364,881,849</u>	<u>\$ 347,568,230</u>

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Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2016</u>	<u>2015</u>
Scholarships and other student awards	\$ 15,523,884	\$ 13,590,902
University support - Academic	25,417,274	12,317,660
University support - Administrative	35,573,488	38,215,746
University support - Capital improvements	24,934,631	38,289,100
Other support	<u>66,474</u>	<u>80,830</u>
	<u>\$ 101,515,751</u>	<u>\$ 102,494,238</u>

Note 9: Unitrust and Annuity Liabilities

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. Beneficiary annuity rates typically follow the guidelines recommended by the American Council on Gift Annuities and range from 5% to 12%. The assets received from donors are recorded at fair value. The Foundation has recorded a liability at June 30, 2016 and 2015, totaling \$3,844,026 and \$3,786,374, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 1.8% and 2.0% in 2016 and 2015, respectively.

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime or a specific time period). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the future interest of the Foundation is recorded in the consolidated statements of activities as temporarily restricted contributions or permanently restricted contributions as designated by the donor, in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the Foundation's consolidated statements of financial position. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate of 1.8% and 2.0% in 2016 and 2015, respectively, as well as applicable mortality tables, and amounted to \$14,016,967 and \$14,672,942 at June 30, 2016 and 2015, respectively. Total actuarial gains (losses) related to these agreements amounted to (\$140,107) and (\$138,926) during 2016 and 2015, respectively.

Kansas State University Foundation
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Note 10: Employee Benefit Plan

The Foundation's Board of Directors has established the Kansas State University Foundation Defined Contribution Retirement Plan (the Plan). The Plan provides for an employer matching contribution of 8.5% for both the years ended June 30, 2016 and 2015. Employees are fully vested when plan contributions are made. Employer contributions paid by the Foundation were \$698,710 and \$630,173 for the years ended June 30, 2016 and 2015, respectively. Effective July 1, 2016, the Plan was amended to include a mandatory employer matching contribution of 10%.

Employees are eligible to immediately participate on a voluntary basis upon being hired. Effective January 1, 2016, the Plan was amended to include mandatory employee participation at time of hire with a minimum contribution of 5.5%. Prior to the plan amendment, eligible employees were required to begin participation in the Plan no later than upon the completion of two years of service at the Foundation.

Note 11: Consolidation of Supporting Organization – KSUGCMRF

The Kansas State University Golf Course Management and Research Foundation (KSUGCMRF) is a supporting organization of the Foundation formed to build, own and operate a golf course. This not-for-profit corporation was formed in 1997 based on a request from the University to provide a golf course to further the University's mission. The corporation was granted tax-exempt status by the Internal Revenue Service. Although consolidated for financial reporting purposes, KSUGCMRF is a separate corporation, and its assets and liabilities are separate from those of the Foundation. The Foundation is not liable for and has not guaranteed the debts or obligations of KSUGCMRF. A summary of financial information for KSUGCMRF at and for the years ended June 30, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Assets		
Cash	\$ 448,683	\$ 499,503
Real estate and other depreciable assets (net of depreciation)	7,683,152	8,043,680
Pledges receivable, net	1,002,702	888,129
Other assets	<u>307,531</u>	<u>258,203</u>
Total assets	9,442,068	9,689,515
Liabilities		
Accrued liabilities	260,657	354,752
Mortgages payable	<u>953,663</u>	<u>1,141,352</u>
Total net assets	<u>\$ 8,227,748</u>	<u>\$ 8,193,411</u>
Revenue, gains and other support	\$ 1,228,276	\$ 1,161,580
Expenses and support	<u>(1,193,939)</u>	<u>(1,154,715)</u>
Change in Net Assets	34,337	6,865
Net Assets, Beginning of Year	<u>8,193,411</u>	<u>8,186,546</u>
Net Assets, End of Year	<u>\$ 8,227,748</u>	<u>\$ 8,193,411</u>

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Note 12: Consolidation of Supporting Organization – FEKSU

The Foundation for Engineering at Kansas State University, Inc. (FEKSU) is a supporting organization formed for charitable and educational purposes exclusively to support the Kansas State University Foundation benefiting the College of Engineering at Kansas State University. This not-for-profit corporation was formed in 2009 based on a request from donors with the objective of providing resources to attract and retain faculty and students through scholarships and enhanced college resources. The corporation has applied for and received tax-exempt status with the Internal Revenue Service. A summary of financial information for FEKSU at June 30, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Assets		
Cash	\$ 20,686	\$ 28,511
Closely held stock (at market value)	<u>107,360,639</u>	<u>77,445,632</u>
Total net assets	<u>\$ 107,381,325</u>	<u>\$ 77,474,143</u>
Sources		
Interest income	\$ 81	\$ 197
Net realized and unrealized gains	<u>31,015,295</u>	<u>9,075,660</u>
	31,015,376	9,075,857
Transfer to University for purpose and expenses	<u>(1,108,194)</u>	<u>(1,462,312)</u>
Change in Net Assets	29,907,182	7,613,545
Net Assets, Beginning of Year	<u>77,474,143</u>	<u>69,860,598</u>
Net Assets, End of Year	<u>\$ 107,381,325</u>	<u>\$ 77,474,143</u>

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Note 13: Consolidation of Supporting Organization – KSUCREF

The Kansas State University Charitable Real Estate Foundation (KSUCREF) is a supporting organization formed to hold and manage real estate properties held for investment. The corporation applied for and received tax-exempt status with the Internal Revenue Service. A summary of financial information for KSUCREF at and for the years ended June 30, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Assets		
Cash	\$ 501,642	\$ 549,720
Investments	25,943,248	22,639,320
Lease receivable	985,313	-
Lease income receivable	15,623	89
Other assets	484	-
	<hr/>	<hr/>
Total assets	27,446,310	23,189,129
Liabilities		
Accrued liabilities	1,372,801	1,211,584
Line of credit	960,366	-
	<hr/>	<hr/>
Total net assets	<u>\$ 25,113,143</u>	<u>\$ 21,977,545</u>
Revenue, gains and other support	\$ 3,865,871	\$ 4,040,754
Expenses and support	<u>(730,273)</u>	<u>(4,202,136)</u>
Change in Net Assets	3,135,598	(161,382)
Net Assets, Beginning of Year	<u>21,977,545</u>	<u>22,138,927</u>
Net Assets, End of Year	<u><u>\$ 25,113,143</u></u>	<u><u>\$ 21,977,545</u></u>

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Note 14: Long-term Debt

	2016	2015
Kansas State Revenue Bonds (A)	\$ 17,203,835	\$ 18,378,296
Printing Services Note Payable, UMB Bank (B)	117,522	189,121
KSUGCMRF Notes Payable, Kansas State Bank (C)	953,663	1,141,352
Capital Equipment Leases, Various Financiers (D)	126,154	176,430
Lines of Credit, Various Financiers (E)	960,366	-
	\$ 19,361,540	\$ 19,885,199

The Foundation undertakes real estate transactions that further the mission of Kansas State University. At no time do any of these transactions utilize donor gifts to meet debt or operating obligations.

- (A) On September 12, 2013, the Foundation acquired financing, via Series 2013D Revenue Bonds, totaling \$9,035,000. The bonds were issued to fund construction of the new Department of Agriculture headquarters on Foundation owned property in the Kansas State University Research Park. The Foundation's obligation to make payments under the loan agreement is limited to the lease amounts received from the Department of Agriculture pursuant to an Assignment of Leases and Rents between the Foundation and the Bond Trustee. Lease payments are subject and dependent upon appropriations being made by the Kansas Legislature for such purpose. Coupon rates range from 2% to 5% with scheduled semi-annual payments beginning April 1, 2014 through October 1, 2033.

On December 19, 2014, the Foundation acquired financing, via Series 2014M Revenue Bonds, totaling \$8,930,000. The bonds were issued to fund construction of the new Kansas State University Foundation headquarters building. Coupon rates are set at the LIBOR Index rate as determined directly prior to each computation date, with scheduled quarterly payments beginning July 1, 2015 through December 1, 2021. On May 20, 2016, the bonds were amended, extending the repayment term of the 2014M-1 bond.

The 2014M bond agreement, among other provisions, contains a financial covenant, which includes that the Foundation maintain a liquidity ratio of 1.25 to 1.00 as defined in the bond agreement. Management of the Foundation has provided this calculation to the bank certifying their compliance with this covenant as of June 30, 2016 after receiving a waiver from the lender to comply with a specific disclosure section of the covenant.

- (B) Due January 2018; payable \$6,330 monthly, including interest at 2.75%; secured by a warehouse/office building on Corporate Drive in Manhattan, Kansas.
- (C) On May 15, 2014, KSUGCMRF refinanced previously issued notes payable and line of credit with Kansas State Bank. Two promissory notes were issued with maturity dates of July 2019 and July 2020. Interest rate is 4.49% with semi-annual payments totaling approximately \$110,000. These notes are guaranteed personally by certain donors.

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On June 1, 2015, KSUGCMRF obtained an additional note payable and line of credit with Kansas State Bank. One promissory note was issued with a maturity date of June 2020, with an interest rate of 4.09%, payable \$82,819 bi-annually; secured by certain property and equipment.

- (D) Capital equipment leases relating to various computer hardware, issued by several financiers. First lease expires May 2019 with required annual payments of \$28,952 at an imputed rate of 2.4%. Second lease expires January 2018 with required quarterly payments of \$6,336 at an imputed rate of 2.4%.
- (E) The Foundation has a \$12,700,000 revolving bank line of credit expiring in September 2020. There was \$960,366 and \$0 borrowed against the line at June 30, 2016 and 2015, respectively. The line is collateralized by certain real property assets of the Foundation. Interest varies with the bank's prime rate, less 0.5%, never to be less than 2%, as calculated at interest date.

The Foundation also has a \$2,500,000 revolving bank line of credit expiring in October 2019. There were no borrowings against the line at June 30, 2016 and 2015. The line is collateralized by all uncollected pledges associated with the completion of the Berney Family Welcome Center. Interest rate is set at a fixed rate of 2.4%.

Aggregate annual maturities of long-term debt at June 30, 2016, are:

2017	\$ 463,232
2018	1,907,613
2019	1,433,847
2020	1,797,567
2021	2,622,945
Thereafter	<u>11,136,336</u>
	<u>\$ 19,361,540</u>

Total interest expense on long-term debt amounted to \$500,439 and \$439,593 during 2016 and 2015, respectively.

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Note 15: Significant Estimates and Concentrations

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

Litigation

Management is not aware of any significant outstanding litigation. The Foundation is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Foundation.

Investments

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

At June 30, 2016 and 2015, the closely held stock by the Foundation for Engineering at Kansas State University, Inc. approximates 13% and 9% of total assets, respectively.

Allowance for Doubtful Collections on Pledges Receivable

Management estimates an allowance for doubtful collections on pledges receivable based on historical trends, individual donor circumstances and current economic conditions. Actual future collections on pledges could result in material future losses.

Note 16: Conditional Promises

Conditional promises are not recognized in the consolidated financial statements due to the unknown occurrence of a specified future and uncertain event. Donors have notified the Foundation of conditional promises approximating \$350,000,000 and \$37,000,000 at June 30, 2016, in the form of bequests and life insurance policies, respectively. Future amounts received may vary significantly as the potential donor has no obligation to retain the Foundation as the beneficiary. Additionally, the timing of any receipts on conditional promises is unknown. As a result, the Foundation has not applied a discount rate to these amounts.

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Note 17: Related Party Transactions

The purpose of the Foundation is to aid, foster and promote the development and welfare of Kansas State University (“University”) in Manhattan, Kansas, and the education and welfare of its students, faculty and alumni, and to acquire property of all kinds for purposes stated above. The Foundation is dependent upon the existence of the University.

At June 30, 2016 and 2015, the Foundation owed approximately \$28,000 and \$186,000, respectively, to the University for scholarships that had been awarded by the University.

In 2014, the Foundation entered into a lease agreement with the State of Kansas Department of Agriculture (“Department”) for a building to be constructed on the Kansas State University Research Park. The lease term is for a period of 20 years, commencing September 1, 2015. The Foundation procured \$9,035,000 in State of Kansas Revenue Bonds (“KS Bonds”) to fund the construction, furnishing and equipping of the building to be leased by the Department.

The Foundation has assigned the lease payments to be received from the Department to the Trustee of the KS Bonds, as defined in the Assignment of Leases and Rents agreement dated August 1, 2013.

In 2016, the Foundation entered into several direct financing and sales-type leases with the University for certain real properties which were purchased by the Foundation on behalf of the University, which the University then entered into five year leases with a transfer of ownership clause at the completion of the lease. There was \$2,985,313 and \$0 in lease receivables recorded in other assets and accrued investment income for the years ended June 30, 2016 and 2015, respectively.

The Foundation has a loan policy for the University administration and colleges to assist in financing various projects. Loans may be issued in two pools; \$50,000 to \$200,000 for a maximum of three years or \$200,000 to \$1,500,000 for a maximum of five years. The interest rate for these loans is the comparable term constant maturity Treasury rate plus 2%. The loans are lines of credit guaranteed by funds for the University and/or college and require quarterly or annual interest payments.

At June 30, 2016 and 2015, the Foundation had the following open lines of credit issued to the University:

Issued To	Purpose	Available Funds	Maturity	Loans Receivable	
				Outstanding at June 30, 2016	Outstanding at June 30, 2015
College of Agriculture	Flour Mill	\$ 1,000,000	March 1, 2017	\$ 1,000,000	\$ 1,000,000
College of Agriculture	Stanley Stout Center	700,000	August 1, 2017	222,046	358,037
College of Human Ecology	Justin Hall addition	1,500,000	June 1, 2016	-	144,269
College of Technology	Salina Locker Room Project	270,000	June 11, 2019	282,877	271,003
Smith Scholarship House	Smith Scholarship House	201,000	April 1, 2025	177,133	201,000

Kansas State University Foundation
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Note 18: Subsequent Events

Subsequent events were evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.