

# **Kansas State University Foundation**

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2015 and 2014



**Kansas State University Foundation**  
**June 30, 2015 and 2014**

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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, 2015 and 2014, 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  
Kansas State University Foundation  
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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, 2015 and 2014, 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  
November 4, 2015

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

**Assets**

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

**Liabilities and Net Assets**

**Liabilities**

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

**Net Assets**

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

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

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

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

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

**Kansas State University Foundation**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Operating Activities</b>		
Change in net assets	\$ (6,195,869)	\$ 182,018,308
Items not requiring (providing) operating activities cash flows		
Depreciation	659,503	544,141
Amortization of bond issuance premium	(22,962)	-
Net realized and unrealized gains on investments	(2,318,156)	(78,857,921)
Contributions and investment income received restricted for long-term investment and capital projects	(40,289,293)	(95,919,690)
Contributions for term endowment	(8,714,395)	(12,388,481)
Non-cash contributions	(16,938,390)	(76,532,157)
Non-cash transfers to Kansas State University	8,061,672	28,727,502
Net actuarial (gains) losses on unitrust and annuity obligations	138,926	(3,492,449)
Loss on disposal of long-lived assets	67,537	-
Changes in		
Pledges receivable	(2,057,147)	(19,549,391)
Receivables from estates	1,516,503	4,015,879
Loans receivable	45,483	64,675
Other assets and accrued income	(2,590,235)	(1,299,828)
Accounts payable and accrued liabilities	12,164,540	2,033,154
Assets held for others	12,209	898,341
	<u>(56,460,074)</u>	<u>(69,737,917)</u>
Net cash used in operating activities		
<b>Investing Activities</b>		
Purchase of investments	(216,472,802)	(113,996,779)
Purchase of real estate	(5,883,853)	(10,545,675)
Proceeds from sale of investments	182,705,568	139,728,424
Expenditures for property	(1,089,816)	(380,183)
Proceeds from sale of long-lived assets	14,500	-
Cash surrender value of life insurance policies	(553,803)	(234,203)
	<u>(41,280,206)</u>	<u>14,571,584</u>
Net cash provided by (used in) investing activities		
<b>Financing Activities</b>		
Proceeds from contributions and investment income restricted for long-term investment and capital projects	40,289,293	95,919,690
Contributions for term endowment	8,714,395	12,388,481
Proceeds from issuance of long-term debt	9,409,215	10,529,780
Principal payments on long-term debt	(289,589)	(2,231,831)
Proceeds from issuance of annuities and trusts payable	314,998	1,451,232
Payments on annuities and trusts payable	(717,956)	(2,633,023)
	<u>57,720,356</u>	<u>115,424,329</u>
Net cash provided by financing activities		
<b>Change in Cash and Cash Equivalents</b>	(40,019,924)	60,257,996
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>120,335,931</u>	<u>60,077,935</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 80,316,007</u>	<u>\$ 120,335,931</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the year for interest	\$ 439,593	\$ 170,386

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

**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, 2015 and 2014, cash equivalents consisted primarily of uninsured money market mutual funds totaling \$70,807,982 and \$112,256,826, respectively, and certificates of deposit.

At June 30, 2015, the Foundation's cash accounts exceeded federally insured limits by approximately \$10,148,000.

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

***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 company 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.

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

***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, 2015 and 2014.

***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.

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

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. With a few exceptions, the Foundation is no longer subject to U.S. Federal examinations by tax authorities for years before 2011.

***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.

***Reclassifications***

Certain reclassifications have been made to the 2014 consolidated financial statement footnotes to conform to the 2015 financial statement footnote presentation. These reclassifications had no effect on the change in net assets.

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

**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, 2015 and 2014 were as follows:

	<b>2015</b>		
	<b>Pooled Fund Endowment Pool</b>	<b>Other Investments</b>	<b>Total Investments</b>
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>

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

	<b>2014</b>		
	<b>Pooled Fund</b>		<b>Total</b>
	<b>Endowment</b>	<b>Other</b>	<b>Investments</b>
	<b>Pool</b>	<b>Investments</b>	<b>Investments</b>
Equity securities	\$ 13,262,468	\$ 617,132	\$ 13,879,600
Mutual funds			
Equity securities	54,947,052	33,323,096	88,270,148
Fixed income securities	18,897,386	4,523,213	23,420,599
Pooled separate funds			
Equity securities	90,061,773	8,368,374	98,430,147
Fixed income securities	-	10,571,015	10,571,015
U.S. Government and agency obligations	-	4,603,932	4,603,932
Private capital			
Real estate investments	15,024,427	-	15,024,427
Venture capital	33,271,586	698,778	33,970,364
Domestic private equity	24,249,701	-	24,249,701
International private equity	17,097,249	-	17,097,249
Private capital distressed debt	10,242,896	-	10,242,896
Natural resources	30,744,224	-	30,744,224
Hedge funds			
Absolute return	31,789,529	6,120,376	37,909,905
Long/short equity	55,418,597	1,400,352	56,818,949
Futures contracts			
Money market mutual fund	37,748,516	-	37,748,516
Restricted cash - margin requirement	8,119,606	-	8,119,606
Open trade equity	1,466,651	-	1,466,651
Closely held common stock	-	69,370,022	69,370,022
Real estate held for investment	-	42,524,497	42,524,497
Other securities and investments	-	48,950	48,950
	<u>\$ 442,341,661</u>	<u>\$ 182,169,737</u>	<u>\$ 624,511,398</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.

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2015 and 2014**

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 \$7,413,467 and \$8,119,606 is held in a margin account at Goldman Sachs as of June 30, 2015 and 2014, respectively.

Investment managers' fees totaled approximately \$3,263,000 and \$2,693,000 for the years ended June 30, 2015 and 2014, respectively.

Total investment return for the years ended June 30, 2015 and 2014 is comprised of the following:

	<b>2015</b>	<b>2014</b>
Interest and dividends, net of Operational Service Charges and Management Fees	\$ (3,737,637)	\$ (2,889,815)
Net realized and unrealized gains on investments reported at fair value	2,318,156	78,857,921
	\$ (1,419,481)	\$ 75,968,106

***Alternative Investments***

Except as described below, the fair value of the following investments has been estimated using the net asset value per share of the investments. Alternative investments held at June 30, 2015 and 2014 consist of the following:

	<b>June 30, 2015</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
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

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	June 30, 2014			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled separate funds (A)				
Equity securities	\$ 98,430,147	\$ -	Monthly	5-45 days
Fixed income securities	10,571,015	-	Monthly	5-45 days
Private capital (B)				
Real estate investments	15,024,427	20,262,950	None	None
Venture capital	33,970,364	18,331,018	None	None
Domestic private equity	24,249,701	11,214,883	None	None
International private equity	17,097,249	15,471,029	None	None
Private capital distressed debt - Liquid	2,405,326	2,136,400	Annual	120 days
Private capital distressed debt - Illiquid	7,837,570	652,798	None	None
Natural resources	30,744,224	2,955,750	None	None
Hedge funds				
Absolute return (C)	37,909,905	-	Monthly to Annually	30-90 days
Long/short equity (D)	56,818,949	-	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 committed to invest \$5 million in additional, new alternative investments as of June 30, 2015.

**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 and liabilities 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, 2015 and 2014:

	<b>2015</b>			
	<b>Fair Value Measurements</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
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	154,926,847	-	127,865,711	27,061,136
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	10,429,835	-	-	10,429,835
Venture capital	44,178,917	-	-	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	40,408,494	-	40,408,494	-
Long/short equity	61,634,506	-	61,541,789	92,717
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>\$ 744,775,547</u>	<u>\$ 245,100,468</u>	<u>\$ 232,510,531</u>	<u>\$ 267,164,548</u>
	100%	33%	31%	36%

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	2014			
	Fair Value Measurements			
	Fair Value	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	\$ 112,256,826	\$ 112,256,826	\$ -	\$ -
Investments				
Equity securities	13,879,600	13,879,600	-	-
Mutual funds				
Equity securities	88,270,149	88,270,149	-	-
Fixed income securities	23,420,599	23,420,599	-	-
Pooled separate funds				
Equity securities	98,430,147	8,368,374	90,061,773	-
Fixed income securities	10,571,015	-	10,571,015	-
U.S. Government and agency obligations	4,603,932	133,488	4,470,444	-
Private capital				
Real estate investments	15,024,427	-	-	15,024,427
Venture capital	33,970,364	-	-	33,970,364
Domestic private equity	24,249,701	-	-	24,249,701
International private equity	17,097,249	-	-	17,097,249
Private capital distressed debt	10,242,896	-	-	10,242,896
Natural resources	30,744,224	-	-	30,744,224
Hedge funds				
Absolute return	37,909,904	-	37,909,904	-
Long/short equity	56,818,949	-	56,713,637	105,312
Futures contracts				
Money market mutual fund	37,748,516	37,748,516	-	-
Restricted cash - margin requirement	8,119,606	8,119,606	-	-
Open trade equity	1,466,651	-	1,466,651	-
Closely held common stock	69,370,022	-	-	69,370,022
Real estate held for investment	42,524,497	-	-	42,524,497
Other securities and investments	48,950	6,119	-	42,831
	<u>\$ 736,768,224</u>	<u>\$ 292,203,277</u>	<u>\$ 201,193,424</u>	<u>\$ 243,371,523</u>
	100%	40%	27%	33%

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, 2015. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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***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.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the Foundation expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which the Foundation does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

Fair value determinations for Level 3 measurements of securities are the responsibility of management. Management obtains fair value estimates from the investment managers on a monthly or quarterly basis. 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:

	<b>Asset (Alternative Investments)</b>	<b>Asset (Closely Held Common Stock)</b>	<b>Asset (Real Estate Held for Investments)</b>	<b>Asset (Other Investments and Securities)</b>	<b>Total</b>
Balance, July 1, 2013	\$ 112,416,017	\$ 67,974,972	\$ 30,928,312	\$ 42,831	\$ 211,362,132
Total realized and unrealized gains included in change in net assets	19,331,443	2,145,188	1,115,594	-	22,592,225
Purchases/donations	25,951,330	-	10,984,247	-	36,935,577
Sales/redemptions	<u>(26,264,617)</u>	<u>(750,138)</u>	<u>(503,656)</u>	<u>-</u>	<u>(27,518,411)</u>
Balance, June 30, 2014	131,434,173	69,370,022	42,524,497	42,831	243,371,523
Total realized and unrealized gains included in change in net assets	9,050,413	9,075,660	130,883	-	18,256,956
Purchases/donations	22,478,437	-	7,392,055	-	29,870,492
Sales/redemptions	<u>(22,237,123)</u>	<u>(1,000,050)</u>	<u>(1,097,250)</u>	<u>-</u>	<u>(24,334,423)</u>
Balance, June 30, 2015	<u>\$ 140,725,900</u>	<u>\$ 77,445,632</u>	<u>\$ 48,950,185</u>	<u>\$ 42,831</u>	<u>\$ 267,164,548</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:

	<b>2015</b>	<b>2014</b>
Total realized gains	\$ 3,095,118	\$ 4,606,321
Change in unrealized gains relating to assets still held at the statement of financial position date	15,161,838	17,985,904

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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.

	<b>Fair Value</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range (Weighted Average)</b>
<b><u>June 30, 2015</u></b>				
Closely held 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 investments	48,950,185	Sales Comparison	Property sales of like properties Comparative advantages and deficiencies	40%
		Property tax appraisals	Values determined by local county	60%
Private capital/hedge funds and other	140,768,731	Net asset value	See Note 2 for net asset value used as a practical expedient to fair value	N/A
<b><u>June 30, 2014</u></b>				
Closely held stock	\$ 69,370,022	Capitalization of Cash Flow	Risk free rate - 3.7% WACC - 11.9% Long-term growth - 4.0%	30%
		Market approach		
		Guideline Company Method	Minority interest discount - 22%	55%
		Private Transaction Method	Minority interest discount - 22%	15%
Real estate held for investments	42,524,497	Sales Comparison	Property sales of like properties Comparative advantages and deficiencies	48%
		Property tax appraisals	Values determined by local county	52%
Private capital/hedge funds and other	131,477,004	Net asset value	See Note 2 for net asset value used as a practical expedient to fair value	N/A

***Fair Value of Financial Instruments***

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated statements of financial position at amounts other than fair value. For each of the following, management has concluded the carrying amount approximates fair value.

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***Cash and Cash Equivalents***

The carrying amount approximates fair value.

***Pledges and Estimated Receivables***

Fair value is estimated at the present value of the future payments expected to be received.

***Loans Receivable***

Fair value is estimated by discounting the future cash flows using the rates at which similar notes would be written for the same remaining maturities.

***Notes Payable***

Fair value is estimated based on borrowing rates currently available to the Foundation for bank loans with similar terms and maturities.

***Liability for Annuities Payable***

The liability for annuities payable is based on the annuitants' life expectancies and a discounted cash flow of payments estimated to be paid to the beneficiaries. The liability is amortized each year based upon the life expectancies of the beneficiaries.

**Note 4: Endowment**

The Foundation's endowment consists of approximately 3,200 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 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:

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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, 2015 and 2014, was as follows:

	<b>2015</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
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>

	<b>2014</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor-restricted endowments				
Market value of endowments	\$ (341,096)	\$ 38,728,906	\$ 335,018,650	\$ 373,406,460
Board-designated endowments				
Board designated	32,818,565	-	-	32,818,565
Board policy to address underwater endowments	39,095,475	-	-	39,095,475
Quasi and term endowments	-	78,416,843	-	78,416,843
	<u>\$ 71,572,944</u>	<u>\$ 117,145,749</u>	<u>\$ 335,018,650</u>	<u>\$ 523,737,343</u>

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The following items are included in the Net Assets at June 30, 2015 and 2014:

	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>

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Funds (per previous table)	\$ 71,572,944	\$ 117,145,749	\$ 335,018,650	\$ 523,737,343
Non-endowment funds available				
for expenditure for purpose	16,927,424	34,286,033	-	51,213,457
Donor-restricted expendable				
gifts	-	154,238,077	-	154,238,077
Program related real estate	-	268,130	2,288,000	2,556,130
Net real estate and other depreciable				
property	-	7,963,521	-	7,963,521
Pledges receivable	7,166	53,507,203	7,689,575	61,203,944
Other assets and accrued income	1,876,249	2,323,547	1,721,182	5,920,978
Cash surrender value	309,148	2,706,145	1,987,562	5,002,855
Receivables from estates	2,500,000	1,375,114	263,727	4,138,841
Unitrust and annuity liabilities	-	(4,509,003)	(15,604,139)	(20,113,142)
Funds held for others	-	(11,319,677)	(51,405)	(11,371,082)
Accrued liabilities	(1,806,610)	-	-	(1,806,610)
	<u>\$ 91,386,321</u>	<u>\$ 357,984,839</u>	<u>\$ 333,313,152</u>	<u>\$ 782,684,312</u>

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Changes in endowment net assets for the years ended June 30, 2015 and 2014, were:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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)	(18,714,687)
Transfers to Board-designated	412,629	-	-	412,629
	<u>\$ 69,880,891</u>	<u>\$ 102,257,682</u>	<u>\$ 347,638,927</u>	<u>\$ 519,777,500</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>
	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets -				
Beginning of year	\$ 64,084,934	\$ 60,835,704	\$ 281,874,864	\$ 406,795,502
Investment return	7,056,779	57,288,520	704,132	65,049,431
Contributions and collections on pledges and estates	41,300	13,916,065	52,687,849	66,645,214
Appropriation of endowment assets for expenditure and change in donor designation	-	(14,894,540)	-	(14,894,540)
Transfers to Board-designated	389,931	-	(248,195)	141,736
	<u>\$ 71,572,944</u>	<u>\$ 117,145,749</u>	<u>\$ 335,018,650</u>	<u>\$ 523,737,343</u>
Endowment net assets -				
End of year	<u>\$ 71,572,944</u>	<u>\$ 117,145,749</u>	<u>\$ 335,018,650</u>	<u>\$ 523,737,343</u>

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Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2015 and 2014, consisted of:

	<b>2015</b>	<b>2014</b>
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	\$347,638,927	\$335,018,650
Portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	\$102,257,682	\$117,145,749

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 \$3,262,378 and \$341,096 at June 30, 2015 and 2014, 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, 2015 and 2014, the total return of the Endowment Pool was -0.88% and 19.23%, 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 three and five 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. .076% of the market value was distributed to the campus units as discretionary funds.
3. 1.40% of the market value for fiscal year 2015 will be distributed to the Foundation for allocation as determined each year by the Board of Directors.
4. 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.

Effective July 1, 2013, the Foundation has changed its policy regarding distributions on underwater funds. No distributions will be allowed 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. Non interest-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, 2015 and 2014 was \$48,950,185 and \$42,524,497, respectively (*see Note 2*).

**Note 6: Pledges Receivable**

Pledges receivable consisted of the following at June 30, 2015 and 2014

	<b>2015</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
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
	<u>8,000</u>	<u>64,863,596</u>	<u>6,704,157</u>	<u>71,575,753</u>
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
	<u>\$ 7,279</u>	<u>\$ 57,137,309</u>	<u>\$ 6,116,503</u>	<u>\$ 63,261,091</u>
	<b>2014</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Due in less than one year	\$ 2,000	\$ 12,586,104	\$ 2,586,868	\$ 15,174,972
Due in one to five years	6,000	41,107,026	5,835,947	46,948,973
Due thereafter	-	8,249,388	139,177	8,388,565
	<u>8,000</u>	<u>61,942,518</u>	<u>8,561,992</u>	<u>70,512,510</u>
Less				
Allowance for uncollectible contributions	224	1,735,309	239,863	1,975,396
Unamortized discount	610	6,700,006	632,554	7,333,170
	<u>\$ 7,166</u>	<u>\$ 53,507,203</u>	<u>\$ 7,689,575</u>	<u>\$ 61,203,944</u>

Discount rate used on pledges receivable was 3.25% at June 30, 2015 and 2014.

As of June 30, 2015 and 2014, approximately 25% of pledges receivable was due from two donors.

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

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Approximately \$28,221,000 and \$29,959,000 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, 2015 and 2014, respectively.

**Note 7: Property and Equipment**

Property and equipment at June 30, 2015 and 2014 consisted of:

	<u>2015</u>	<u>2014</u>
Buildings and improvements	\$ 2,735,657	\$ 2,735,657
Furniture and equipment	1,300,867	1,065,130
Other	<u>229,736</u>	<u>209,894</u>
	4,266,260	4,010,681
Less accumulated depreciation and amortization	<u>(2,641,915)</u>	<u>(2,654,453)</u>
	<u>\$ 1,624,345</u>	<u>\$ 1,356,228</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>2015</u>	<u>2014</u>
Land and land improvements	\$ 3,624,212	\$ 3,447,781
Buildings and improvements	5,167,716	5,159,824
Other	<u>1,568,937</u>	<u>1,218,089</u>
	10,360,865	9,825,694
Less accumulated depreciation and amortization	<u>(2,317,185)</u>	<u>(1,862,173)</u>
	<u>\$ 8,043,680</u>	<u>\$ 7,963,521</u>

**Kansas State University Foundation**  
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**Note 8: Net Assets**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at June 30, 2015 and 2014 are available for the following purposes or periods:

	<u>2015</u>	<u>2014</u>
Departmental support/Excellence	\$166,707,241	\$147,335,207
Student scholarships and support	71,941,406	80,322,117
Property, plant and equipment	77,175,793	100,836,429
Professorships and faculty support	15,847,629	18,190,732
Research	12,079,386	11,300,354
	<u>\$343,751,455</u>	<u>\$357,984,839</u>

***Permanently Restricted Net Assets***

Permanently restricted net assets at June 30, 2015 and 2014 are restricted to support:

	<u>2015</u>	<u>2014</u>
Student scholarships and support	\$192,025,935	\$182,629,866
Departmental support	62,836,083	61,433,946
Professorships and faculty support	72,279,626	68,512,336
Research	15,379,295	15,837,480
Property, plant and equipment	5,047,291	4,899,524
	<u>\$347,568,230</u>	<u>\$333,313,152</u>

***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>2015</u>	<u>2014</u>
Scholarships and other student awards	\$ 13,590,902	\$ 11,356,107
University support - Academic	12,317,660	13,578,074
University support - Administrative	38,215,746	38,844,446
University support - Capital improvements	38,289,100	5,980,638
Other support	80,830	135,906
	<u>\$102,494,238</u>	<u>\$ 69,895,171</u>

**Kansas State University Foundation**  
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**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, 2015 and 2014, totaling \$3,786,374 and \$4,197,775, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 2.0% and 1.2% in 2015 and 2014, 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 2.0% and 1.2% in 2015 and 2014, respectively, as well as applicable mortality tables, and amounted to \$14,672,942 and \$15,915,367 at June 30, 2015 and 2014, respectively. Total actuarial gains (losses) related to these agreements amounted to (\$138,926) and \$3,492,449 during 2015 and 2014, respectively.

**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 each year. Employees are fully vested when plan contributions are made. Employer contributions paid by the Foundation were \$630,173 and \$552,796 for the years ended June 30, 2015 and 2014, respectively.

Employees are eligible to immediately participate on a voluntary basis upon being hired. An eligible employee is required to begin participation in the Plan no later than upon the completion of two years of service at the Foundation.

**Kansas State University Foundation**  
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**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, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Cash	\$ 499,503	\$ 486,556
Real estate and other depreciable assets (net of depreciation)	8,043,680	7,963,521
Pledges receivable, net	888,129	884,955
Other assets	<u>258,203</u>	<u>174,898</u>
Total assets	<u>9,689,515</u>	<u>9,509,930</u>
<b>Liabilities</b>		
Accrued liabilities	354,752	264,861
Mortgages payable	<u>1,141,352</u>	<u>1,058,523</u>
Total net assets	<u>\$ 8,193,411</u>	<u>\$ 8,186,546</u>
Revenue, gains and other support	\$ 1,161,580	\$ 329,820
Expenses and support	<u>(1,154,715)</u>	<u>(937,481)</u>
Change in Net Assets	6,865	(607,661)
Net Assets, Beginning of Year	<u>8,186,546</u>	<u>8,794,207</u>
Net Assets, End of Year	<u>\$ 8,193,411</u>	<u>\$ 8,186,546</u>

**Kansas State University Foundation**  
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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, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Assets		
Cash	\$ 28,511	\$ 490,576
Closely held stock (at market value)	<u>77,445,632</u>	<u>69,370,022</u>
Total net assets	<u>\$ 77,474,143</u>	<u>\$ 69,860,598</u>
Sources		
Interest income	\$ 197	\$ 351
Net realized and unrealized gains	<u>9,075,660</u>	<u>2,145,188</u>
	9,075,857	2,145,539
Transfer to University for purpose and expenses	<u>(1,462,312)</u>	<u>(2,982,256)</u>
Change in Net Assets	7,613,545	(836,717)
Net Assets, Beginning of Year	<u>69,860,598</u>	<u>70,697,315</u>
Net Assets, End of Year	<u>\$ 77,474,143</u>	<u>\$ 69,860,598</u>

**Kansas State University Foundation**  
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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, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Assets		
Cash	\$ 549,720	\$ 486,433
Investments	22,639,320	22,971,102
Lease income receivable	89	6,315
Other assets	-	1,489
	<u>23,189,129</u>	<u>23,465,339</u>
Liabilities		
Accrued liabilities	<u>1,211,584</u>	<u>1,326,412</u>
Total net assets	<u>\$ 21,977,545</u>	<u>\$ 22,138,927</u>
Revenue, gains and other support	\$ 4,040,754	\$ 1,870,879
Expenses and support	<u>(4,202,136)</u>	<u>(1,574,987)</u>
Change in Net Assets	(161,382)	295,892
Net Assets, Beginning of Year	<u>22,138,927</u>	<u>21,843,035</u>
Net Assets, End of Year	<u>\$ 21,977,545</u>	<u>\$ 22,138,927</u>

**Kansas State University Foundation**  
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**Note 14: Long-term Debt**

	<b>2015</b>	<b>2014</b>
Kansas State Revenue Bonds (A)	\$ 18,378,296	\$ 9,471,257
Printing Services Note Payable, UMB Bank (B)	189,121	258,755
KSUGCMRF Notes Payable, Kansas State Bank (C)	1,141,352	1,058,523
Capital Equipment Leases, Various Financiers (D)	176,430	-
	<b>\$ 19,885,199</b>	<b>\$ 10,788,535</b>

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.

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 bank certifying their compliance with this covenant as of June 30, 2015.

(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%.

Aggregate annual maturities of long-term debt at June 30, 2015, are:

2016	\$ 3,452,497
2017	1,019,020
2018	1,424,799
2019	933,848
2020	1,193,608
Thereafter	<u>11,861,427</u>
	<u><u>\$ 19,885,199</u></u>

Total interest expense on long-term debt amounted to \$439,593 and \$170,386 during 2015 and 2014, respectively.

**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.

**Kansas State University Foundation**  
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At June 30, 2015 and 2014, the closely held stock by the Foundation for Engineering at Kansas State University, Inc. approximates 9% and 8% of total assets for both years.

***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 \$311,000,000 and \$37,000,000 at June 30, 2015, 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.

**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, 2015 and 2014, the Foundation owed approximately \$186,000 and \$244,000, respectively, to the University for scholarships that had been awarded by the University.

During the year ended June 30, 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.

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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, 2015 and 2014, 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, 2015	Outstanding at June 30, 2014
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	358,037	526,356
College of Human Ecology	Justin Hall addition	1,500,000	June 1, 2016	144,269	149,922
College of Technology	Salina Locker Room Project	270,000	June 11, 2019	271,003	213,152
Smith Scholarship House	Smith Scholarship House	201,000	April 1, 2025	201,000	-

**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.