Kansas State University Foundation

Independent Auditor’s Report and Consolidated Financial Statements

June 30, 2019 and 2018

BKD LLP
CPAs & Advisors

Kansas State University Foundation

June 30, 2019 and 2018

Contents

BKD
CPAs & Advisors

1201 Walnut Street, Suite 1700 | Kansas City, MO 64106-2246
816.221.6300 | Fax 816.221.6380 | bkd.com

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, 2019 and 2018, and the related consolidated statements of activities, functional expenses 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kansas State University Foundation and its supporting organizations as of June 30, 2019 and 2018, 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.

Emphasis of Matters

As described in Note 2 to the consolidated financial statements, in 2019, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities,* ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), and ASU 2018-08: *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

BKD, LLP

Kansas City, Missouri
September 27, 2019

Kansas State University Foundation

Consolidated Statements of Financial Position

June 30, 2019 and 2018

Assets

	2019	2018
Cash and cash equivalents	$ 67,753,514	$ 94,377,144
Investments	810,273,653	725,912,881
Pledges receivable – net of allowance and discounts	70,919,273	45,514,990
Receivables from estates	1,776,585	352,003
Loans receivable	6,053,946	227,432
Property and equipment, net of accumulated depreciation; 2019 - $2,388,478, 2018 - $1,720,027	14,613,347	14,662,312
Assets held for sale	-	12,086,993
Golf Course property and equipment, net of accumulated depreciation; 2019 - $4,194,179, 2018 - $3,957,587	7,290,004	7,719,520
Note receivable	10,374,000	10,374,000
Cash surrender value of life insurance policies	7,456,209	7,047,725
Other assets and accrued investment income	6,249,894	8,361,267
Total assets	$ 1,002,760,425	$ 926,636,267

Liabilities and Net Assets

	2019	2018
Liabilities		
Accounts payable, deposits and other liabilities	$ 3,117,491	$ 2,531,114
Accrued liabilities	2,996,533	4,615,902
Assets held for others	13,161,228	12,602,339
Unitrust and annuity liabilities	19,913,227	19,518,068
Long-term debt and lines of credit	37,546,689	41,990,466
Total liabilities	76,735,168	81,257,889
Net Assets		
Net assets without donor restrictions	93,473,152	87,352,639
Net assets with donor restrictions	832,552,105	758,025,739
Total net assets	926,025,257	845,378,378
Total liabilities and net assets	$ 1,002,760,425	$ 926,636,267

Kansas State University Foundation
Consolidated Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	$ 3,585,309	$ 134,827,062	$ 138,412,371
Provision for bad debts	(11,395)	(1,702,943)	(1,714,338)
Net contribution revenue, less provision for bad debts	3,573,914	133,124,119	136,698,033
Investment income (loss), net	(5,569,201)	(1,925)	(5,571,126)
Net realized and unrealized gains on investments	15,419,343	29,091,760	44,511,103
Other support			
Operational service charges, management fees and other	17,445,672	(35,011)	17,410,661
Receipts for grants, research, supplies, travel and other			
University departmental activities and funding allotments, etc.	485,637	2,661,661	3,147,298
Actuarial gains (losses) on unitrusts and annuity obligations	(1,076,270)	703,912	(372,358)
Net assets released from restrictions and change in donor designation	91,018,150	(91,018,150)	-
Total revenues, gains and other support	121,297,245	74,526,366	195,823,611
Expenses and Support			
Direct University support			
Scholarships and other student awards	18,376,634	-	18,376,634
Academic support	12,855,268	-	12,855,268
Administrative support	60,523,898	-	60,523,898
Capital improvements	3,156,904	-	3,156,904
Subtotal	94,912,704	-	94,912,704
Management and general	8,364,806	-	8,364,806
Fundraising and development	11,899,222	-	11,899,222
Total expenses and support	115,176,732	-	115,176,732
Change in Net Assets	6,120,513	74,526,366	80,646,879
Net Assets, Beginning of Year	87,352,639	758,025,739	845,378,378
Net Assets, End of Year	$ 93,473,152	$ 832,552,105	$ 926,025,257

Kansas State University Foundation

Consolidated Statement of Activities

Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	$ 3,331,420	$ 96,127,358	$ 99,458,778
Provision for bad debts	(13,782)	889,458	875,676
Net contribution revenue, less provision for bad debts	3,317,638	97,016,816	100,334,454
Investment income (loss), net	(6,814,900)	489,445	(6,325,455)
Net realized and unrealized gains on investments	12,665,610	20,676,331	33,341,941
Other support			
Operational service charges, management fees and other	16,116,116	(34,021)	16,082,095
Receipts for grants, research, supplies, travel and other			
University departmental activities and funding allotments, etc.	548,344	2,413,917	2,962,261
Actuarial gains (losses) on unitrusts and annuity obligations	(1,734,936)	2,511,273	776,337
Net assets released from restrictions and change in donor designation	92,266,253	(92,266,253)	-
Total revenues, gains and other support	116,364,125	30,807,508	147,171,633
Expenses and Support			
Direct University support			
Scholarships and other student awards	17,860,604	-	17,860,604
Academic support	14,113,649	-	14,113,649
Administrative support	48,708,936	-	48,708,936
Capital improvements	16,353,394	-	16,353,394
Subtotal	97,036,583	-	97,036,583
Management and general	7,756,811	-	7,756,811
Fundraising and development	10,927,727	-	10,927,727
Total expenses and support	115,721,121	-	115,721,121
Change in Net Assets	643,004	30,807,508	31,450,512
Net Assets, Beginning of Year, As Previously Reported	78,039,635	735,888,231	813,927,866
Adoption of ASU 2016-14	8,670,000	(8,670,000)	-
Net Assets, Beginning of Year, As Adjusted	86,709,635	727,218,231	813,927,866
Net Assets, End of Year	$ 87,352,639	$ 758,025,739	$ 845,378,378

Kansas State University Foundation

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019

	Scholarships and Other Student Awards	Academic Support	Administrative Support	Capital Improvements	Direct University Support Total	Management and General	Fundraising and Development	Overall Total
Salaries, wages and benefits		$ 5,522,572	$ 851,396		$ 6,373,968	$ 4,824,644	$ 8,913,771	$ 20,112,383
Scholarships, awards and student development	$ 18,376,634	2,365,575	-		20,742,209	-	-	20,742,209
Travel, seminars and meetings	-	979,947	530,524		1,510,471	163,458	955,502	2,629,431
Hospitality, entertainment and events	-	-	1,612,365		1,612,365	58,686	602,791	2,273,842
Professional services	-	404,619	744,512		1,149,131	355,889	226,700	1,731,720
Research	-	471,944	-		471,944	-	-	471,944
Construction and building expenses	-	-	175,476	$ 2,842,248	3,017,724	242,523	720	3,260,967
University support	-	443,632	49,609,003	-	50,052,635	436,323	-	50,488,958
Equipment and supplies	-	1,454,336	612,386	221,354	2,288,076	127,973	100,660	2,516,709
Office expenses	-	124,640	194,022	-	318,662	321,245	418,341	1,058,248
University advancement and other fees	-	11,499	3,982,594	-	3,994,093	113,227	-	4,107,320
Insurance expense	-	-	916,783	-	916,783	95,188	83	1,012,054
Advertising	-	17,494	54,858	-	72,352	28,209	91,905	192,466
Dues and subscriptions	-	40,645	74,725	-	115,370	28,363	60,914	204,647
Rental expenses	-	203,079	143,142	-	346,221	-	129,720	475,941
Computer systems	-	107,112	156,446	-	263,558	672,046	265,963	1,201,567
Depreciation, excluding KSUGCMRF assets	-	-	-	-	-	722,188	-	722,188
Gift in-kind contributions and other miscellaneous	-	612,765	865,666	-	1,478,431	50,000	132,152	1,660,583
Loan and interest expense	-	95,409	-	93,302	188,711	124,844	-	313,555
	$ 18,376,634	$ 12,855,268	$ 60,523,898	$ 3,156,904	$ 94,912,704	$ 8,364,806	$ 11,899,222	$ 115,176,732

See Notes to Consolidated Financial Statements

Kansas State University Foundation

Consolidated Statement of Functional Expenses

Year Ended June 30, 2018

	Scholarships and Other Student Awards	Academic Support	Administrative Support	Capital Improvements	Direct University Support Total	Management and General	Fundraising and Development	Overall Total
Salaries, wages and benefits		$ 6,607,118	$ 921,691		$ 7,528,810	$ 4,417,894	$ 8,081,835	$ 20,028,539
Scholarships, awards and student development	$ 17,860,604	2,628,266	-		20,488,869	-	-	20,488,869
Travel, seminars and meetings	-	746,913	558,482		1,305,395	126,182	811,965	2,243,543
Hospitality, entertainment and events	-	-	1,512,595		1,512,595	51,780	532,411	2,096,786
Professional services	-	464,694	725,931		1,190,625	423,198	550,034	2,163,857
Research	-	813,774	-		813,774	-	-	813,774
Construction and building expenses	-	-	353,699	$ 16,223,713	16,577,412	199,936	-	16,777,347
University support	-	374,234	37,463,474	-	37,837,708	540,000	-	38,377,708
Equipment and supplies	-	1,450,348	931,438	15,071	2,396,857	123,207	114,033	2,634,097
Office expenses	-	81,182	266,071	-	347,253	124,308	455,581	927,143
University advancement and other fees	-	12,435	3,870,468	-	3,882,903	113,332	-	3,996,235
Insurance expense	-	-	865,176	-	865,176	105,447	490	971,114
Advertising	-	7,889	65,672	-	73,561	3,398	71,818	148,776
Dues and subscriptions	-	30,234	148,401	-	178,635	28,658	58,611	265,904
Rental expenses	-	147,629	182,987	-	330,616	-	71,420	402,036
Computer systems	-	57,411	161,055	-	218,466	613,246	69,402	901,114
Depreciation, excluding KSUGCMRF assets	-	-	-	-	-	680,683	-	680,683
Gift in-kind contributions and other miscellaneous	-	689,022	681,796	-	1,370,818	72,093	110,127	1,553,038
Loan and interest expense	-	2,500	-	114,610	117,110	133,449	-	250,558
	$ 17,860,604	$ 14,113,649	$ 48,708,936	$ 16,353,394	$ 97,036,583	$ 7,756,811	$ 10,927,727	$ 115,721,121

See Notes to Consolidated Financial Statements

Kansas State University Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	$ 80,646,879	$ 31,450,512
Items not requiring (providing) operating activities cash flows		
Depreciation	1,291,261	1,235,743
Amortization of bond issuance premium and debt issuance costs	128,421	85,331
Net realized and unrealized gains on investments	(44,511,103)	(33,341,941)
Contributions and investment income received restricted for long-term investment and capital projects	(79,094,866)	(64,707,033)
Contributions for term endowment	(2,102,150)	(1,533,764)
Non-cash contributions	(28,274,241)	(38,889,333)
Non-cash transfers to Kansas State University	2,799,630	3,109,648
Net actuarial gains (losses) on unitrust and annuity obligations	372,358	(776,337)
Loss on disposal of long-lived assets	1,108,636	-
Changes in		
Pledges receivable	(25,404,283)	7,323,004
Receivables from estates	(1,424,582)	451,497
Loans receivable	177,745	24,279
Other assets and accrued investment income	1,229,740	(1,057,764)
Accounts payable and accrued liabilities	(1,089,804)	2,576,036
Assets held for others	558,889	311,160
Net cash used in operating activities	(93,587,470)	(93,738,962)
Investing Activities		
Purchase of investments	(127,446,438)	(136,100,682)
Purchase of real estate	(4,101,926)	(14,797,332)
Proceeds from sale of investments	122,378,795	219,861,544
Expenditures for property and equipment	(754,218)	(767,374)
Proceeds from sale of long-lived assets	708,187	710,787
Issuance of notes receivable	-	(10,374,000)
Cash surrender value of life insurance policies	(408,484)	(781,135)
Net cash provided by (used in) investing activities	(9,624,084)	57,751,808
Financing Activities		
Proceeds from contributions and investment income restricted for long-term investment and capital projects	79,094,866	64,707,033
Contributions for term endowment	2,102,150	1,533,764
Proceeds from issuance of long-term debt	1,219,258	26,481,639
Principal payments on long-term debt	(7,073,139)	(2,021,684)
Payments for debt issuance costs	(34,493)	(452,604)
Borrowings under line of credit agreement	2,290,165	-
Repayments under line of credit agreement	(1,012,735)	(204,500)
Proceeds from issuance of annuities and trusts payable	2,391,670	1,826,962
Payments on annuities and trusts payable	(2,389,818)	(2,256,737)
Net cash provided by financing activities	76,587,924	89,613,873
Change in Cash and Cash Equivalents	(26,623,630)	53,626,719
Cash and Cash Equivalents, Beginning of Year	94,377,144	40,750,425
Cash and Cash Equivalents, End of Year	$ 67,753,514	$ 94,377,144

Kansas State University Foundation

Consolidated Statements of Cash Flows (Continued)

Years Ended June 30, 2019 and 2018

	2019	2018
Supplemental Disclosures of Cash Flows Information		
Cash paid during the year for interest	$ 1,573,638	$ 1,025,484
Loan receivable for sale of real estate investments	6,000,000	-
Capital lease obligation incurred for property and equipment	38,746	198,216

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 four 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, the Kansas State University Charitable Real Estate Foundation (KSUCREF), formed in 2012, and 1880 Kimball, LLC, formed in 2017. KSUCREF consolidates Double R Ranch, LLLP and Lazy T4 Ranch, LLLP, whose membership interests were donated to the Foundation in 2018 and subsequently sold in 2019. 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, 2019 and 2018, cash equivalents consisted primarily of uninsured money market mutual funds totaling $66,431,108 and $90,095,707, respectively, and certificates of deposit.

At June 30, 2019, the Foundation's cash accounts exceeded federally insured limits by approximately $1,776,000.

Investments and Net 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, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statements of activities with or without donor restrictions 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 monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

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.

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 $5,000 at cost.

Assets Held for Sale

In January 2018, a donor donated all of the outstanding membership interest of the Double R Ranch, LLLP and Lazy T4 Ranch, LLLP (together, the LLLPs) to the Foundation for an estimated value of $12,500,000. At the time of receipt of the donation, the Foundation committed to a plan to dispose of certain assets held by the LLLPs. The assets consist of $10,958,541 in real estate investments and $1,128,452 of depreciable property. The sale closed during the first quarter of 2019 for gross proceeds of $12,500,000, of which $6,000,000 consisted of a direct financing agreement provided by the Foundation. The use of the sales proceeds will be to fund $7,500,000 in donor endowment funds and $5,000,000 in expendable funds administered by the Foundation.

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, 2019 and 2018.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions. The governing board has designated, from net assets without donor or certain grantor restrictions, net assets for an operating reserve and board-designated endowment. Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements 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 revenue and net assets without donor restrictions.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions 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.

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.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fund raising categories based on the various methods.

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.

Other Support Revenue

Other support revenue, excluding actuarial gains (losses) on unitrusts and annuity obligations, is recognized as the Foundation satisfies performance obligations under its contracts. Revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Foundation expects to be entitled in exchange for providing services. The Foundation determines the transaction price based on standard charges for services provided, reduced by implicit and explicit price concessions, if any.

Reclassifications

Certain reclassifications have been made to the 2018 consolidated financial statements to conform to the 2019 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Change in Accounting Principles

In 2019, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.
- Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class. This is a change from the previously required classification as unrestricted net assets in the amount of $8,670,000 as of July 1, 2017, with a related adjustment between net realized and unrealized gains on investments for with and without restriction for 2018 in the amount of $3,059,256.

Statement of Activities

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the Statement of Financial Position.
- Amounts and purposes of Governing Board designations and appropriations as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.

On July 1, 2018, the Foundation adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASU 2014-09) and ASU 2018-08: *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08) using a modified retrospective method of adoption to all contracts with customers at July 1, 2018. The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised services to recipient in amounts that reflect the consideration to which the Foundation expects to be entitled in exchange for those services. The amount to which the Foundation expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing services. Adoption of ASU 2014-09 resulted in changes in presentation of financial statements and related disclosures in the notes to the consolidated financial statements.

Note 3: 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, 2019 and 2018, were as follows:

	2019		
	Pooled Fund Endowment Pool	Other Investments	Total Investments
Marketable equity securities	$ 164,295,090	$ 45,072,940	$ 209,368,030
Pooled separate funds			
Equity securities	144,105,856	-	144,105,856
U.S. Government and agency obligations	-	1,396,992	1,396,992
Corporate bonds and other fixed income securities	-	57,006	57,006
Private capital			
Real estate investments	34,616,032	-	34,616,032
Venture capital	80,870,398	217,895	81,088,293
Domestic private equity	37,603,048	-	37,603,048
International private equity	13,476,542	-	13,476,542
Private capital distressed debt	3,625,338	-	3,625,338
Natural resources	23,502,694	-	23,502,694
Fixed income	4,408,236	-	4,408,236
Futures	15,674,213	-	15,674,213
Hedge funds			
Absolute return	20,797,427	2,156,490	22,953,917
Long/short equity	51,618,579	-	51,618,579
Closely held common stock	-	100,818,549	100,818,549
Real estate held for investment	-	65,864,184	65,864,184
Other securities and investments	-	96,144	96,144
	$ 594,593,453	$ 215,680,200	$ 810,273,653

	2018		
	Pooled Fund Endowment Pool	Other Investments	Total Investments
Marketable equity securities	$ 72,601,063	$ 44,086,279	$ 116,687,342
Pooled separate funds			
Equity securities	134,987,739	10,788,409	145,776,148
Fixed income	40,151,049	-	40,151,049
U.S. Government and agency obligations	-	7,378,214	7,378,214
Corporate bonds and other fixed income securities	-	56,380	56,380
Private capital			
Real estate investments	28,246,121	-	28,246,121
Venture capital	61,157,247	282,969	61,440,216
Domestic private equity	28,675,934	-	28,675,934
International private equity	13,218,213	-	13,218,213
Private capital distressed debt	3,999,481	-	3,999,481
Natural resources	21,623,206	-	21,623,206
Fixed income	2,856,534	-	2,856,534
Hedge funds			
Absolute return	5,458,292	2,175,193	7,633,485
Long/short equity	66,437,188	-	66,437,188
Futures contracts	23,138,613	-	23,138,613
Closely held common stock	-	96,257,699	96,257,699
Real estate held for investment	-	62,210,940	62,210,940
Other securities and investments	-	126,118	126,118
	$ 502,550,680	$ 223,362,201	$ 725,912,881

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.

Investment managers' fees totaled approximately $6,425,000 and $6,014,000 for the years ended June 30, 2019 and 2018, respectively.

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, 2019 and 2018:

	June 30, 2019			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Pooled separate funds (A)				
Equity securities	$ 144,105,856	$ -	Monthly	5-45 days
Private capital (B)				
Real estate investments	34,616,032	3,960,767	None	None
Venture capital	81,088,293	28,065,215	None	None
Domestic private equity	37,603,048	34,372,114	None	None
International private equity	13,476,542	6,308,593	None	None
Private capital distressed debt - Illiquid	3,625,338	5,754,198	None	None
Natural resources	23,502,694	9,986,979	None	None
Fixed income	4,408,236	650,000	None	None
Futures	15,674,213	-	Monthly	3 days
Hedge funds				
Absolute return (C)	22,953,917	-	Monthly to Annually	45 days
Long/short equity (D)	51,618,579	-	Monthly to Annually	30-90 days

	June 30, 2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled separate funds (A)				
Equity securities	$ 145,776,148	$ -	Monthly	5-45 days
Fixed income securities	40,151,049	-	Monthly	5-45 days
Private capital (B)				
Real estate investments	28,246,121	8,280,759	None	None
Venture capital	61,440,216	26,912,715	None	None
Domestic private equity	28,675,934	45,860,933	None	None
International private equity	13,218,213	8,188,473	None	None
Private capital distressed debt - Illiquid	3,999,481	6,514,198	Annual	120 days
Natural resources	21,623,206	15,810,451	None	None
Fixed income	2,856,534	2,150,000	None	None
Futures	23,138,613	-	Monthly	3 days
Hedge funds				
Absolute return (C)	7,633,485	-	Monthly to Annually	45 days
Long/short equity (D)	66,437,188	-	Monthly to Annually	30-90 days

(A) This category includes investments in pooled separate accounts which hold exchange-traded equity securities and fixed income securities. While the underlying securities in these accounts are primarily highly liquid, exchange-traded securities, the nature of this type of account generally 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.

(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, 2019.

Note 4: 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

Kansas State University Foundation

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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, 2019 and 2018:

		2019 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)	Investments Measured at NAV[(A)]
Cash and Cash Equivalents					
Money market mutual funds	$ 66,431,108	$ 66,431,108	$ -	$ -	$ -
Investments					
Marketable equity securities	209,368,030	209,368,030	-	-	-
Pooled separate funds					
Equity securities measured at net asset value (A)	144,105,856	-	-	-	144,105,856
U.S. Government and agency obligations	1,396,992	-	1,396,992	-	-
Corporate bonds and other fixed income securities	57,006	-	57,006	-	-
Private capital					
Real estate investments measured at net asset value (A)	34,616,032	-	-	-	34,616,032
Venture capital measured at net asset value (A)	81,088,293	-	-	-	81,088,293
Domestic private equity measured at net asset value (A)	37,603,048	-	-	-	37,603,048
International private equity measured at net asset value (A)	13,476,542	-	-	-	13,476,542
Private capital distressed debt measured at net asset value (A)	3,625,338	-	-	-	3,625,338
Natural resources measured at net asset value (A)	23,502,694	-	-	-	23,502,694
Fixed income measured at net asset value (A)	4,408,236	-	-	-	4,408,236
Futures measured at net asset value (A)	15,674,213	-	-	-	15,674,213
Hedge funds					
Absolute return measured at net asset value (A)	22,953,917	-	-	-	22,953,917
Long/short equity measured at net asset value (A)	51,618,579	-	-	-	51,618,579
Closely held common stock	100,818,549	-	-	100,818,549	-
Real estate held for investment	65,864,184	-	-	65,864,184	-
Other securities and investments measured at net asset value (A)	96,144	-	-	-	96,144
	$ 876,704,761	$ 275,799,138	$ 1,453,998	$ 166,682,733	$ 432,768,892

	2018 Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV(A)
Cash and Cash Equivalents					
Money market mutual funds	$ 90,095,707	$ 90,095,707	$ -	$ -	$ -
Investments					
Marketable equity securities	116,687,342	116,687,342	-	-	-
Pooled separate funds					
Equity securities measured at net asset value (A)	145,776,148	-	-	-	145,776,148
Fixed income measured at net asset value (A)	40,151,049	-	-	-	40,151,049
U.S. Government and agency obligations	7,378,214	-	7,378,214	-	-
Corporate bonds and other fixed income securities	56,380	-	56,380	-	-
Private capital					
Real estate investments measured at net asset value (A)	28,246,121	-	-	-	28,246,121
Venture capital measured at net asset value (A)	61,440,216	-	-	-	61,440,216
Domestic private equity measured at net asset value (A)	28,675,934	-	-	-	28,675,934
International private equity measured at net asset value (A)	13,218,213	-	-	-	13,218,213
Private capital distressed debt measured at net asset value (A)	3,999,481	-	-	-	3,999,481
Natural resources measured at net asset value (A)	21,623,206	-	-	-	21,623,206
Fixed income measured at net asset value (A)	2,856,534	-	-	-	2,856,534
Futures contracts measured at net asset value (A)	23,138,613	-	-	-	23,138,613
Hedge funds					
Absolute return measured at net asset value (A)	7,633,485	-	-	-	7,633,485
Long/short equity measured at net asset value (A)	66,437,188	-	-	-	66,437,188
Closely held common stock	96,257,699	-	-	96,257,699	-
Real estate held for investment	62,210,940	-	-	62,210,940	-
Other securities and investments measured at net asset value (A)	126,118	-	-	-	126,118
	$ 816,008,588	$ 206,783,049	$ 7,434,594	$ 158,468,639	$ 443,322,306

(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.

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, 2019. 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.

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, 2017	$ 110,583,749	$ 48,419,882	$ 159,003,631
Total realized and unrealized losses included in change in net assets	(13,126,050)	(1,971,509)	(15,097,559)
Purchases/donations	-	29,294,882	29,294,882
Sales/redemptions	(1,200,000)	(2,573,774)	(3,773,774)
Reclassification for assets held for sale	-	(10,958,541)	(10,958,541)
Balance, June 30, 2018	96,257,699	62,210,940	158,468,639
Total realized and unrealized (losses) gains included in change in net assets	5,761,060	(1,371,533)	4,389,527
Purchases/donations	-	6,922,019	6,922,019
Sales/redemptions	(1,200,210)	(1,897,242)	(3,097,452)
Balance, June 30, 2019	$ 100,818,549	$ 65,864,184	$ 166,682,733

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 activities as follows:

	2019	2018
Total realized gains	$ 592,445	$ 563,521
Change in unrealized gains (losses) relating to assets still held at the statement of financial position date	3,797,082	(15,661,080)

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
June 30, 2019			
Closely held common stock	$ 100,818,549	Capitalization of Cash Flow	Risk free rate - 2.9%
			WACC - 14.3%
			Long-term growth - 1.9%
		Market approach	
		Guideline Company Method	Lack of marketability discount - 32%
		Private Transaction Method	Minority interest discount - 20.1%
Real estate held for investment	65,864,184	Sales Comparison	Property sales of like properties
			Comparative advantages and deficiencies
		Property tax appraisals	Values determined by local county

	Fair Value	Valuation Technique	Unobservable Inputs
June 30, 2018			
Closely held common stock	$ 96,257,699	Capitalization of Cash Flow	Risk free rate - 2.6%
			WACC - 14.2%
			Long-term growth - 2.1%
		Market approach	
		Guideline Company Method	Lack of marketability discount - 32%
		Private Transaction Method	Minority interest discount - 20.1%
Real estate held for investment	62,210,940	Sales Comparison	Property sales of like properties
			Comparative advantages and deficiencies
		Property tax appraisals	Values determined by local county

Note 5: Endowment

The Foundation's endowment consists of approximately 4,000 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) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing body of the Foundation has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, 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, 2019 and 2018, was as follows:

	2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Board-designated endowment funds			
Board designated	$ 27,265,568	$ -	$ 27,265,568
Board policy to address underwater endowments	39,260,470	-	39,260,470
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	438,476,341	438,476,341
Accumulated investment gains	-	28,173,042	28,173,042
Term endowments	-	87,834,111	87,834,111
	$ 66,526,038	$ 554,483,494	$ 621,009,532

	2018 Without Donor Restrictions	2018 With Donor Restrictions	2018 Total
Board-designated endowments			
Board designated	$ 26,136,980	$ -	$ 26,136,980
Board policy to address underwater endowments	38,466,705	-	38,466,705
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	410,358,362	410,358,362
Accumulated investment gains	-	9,564,466	9,564,466
Term endowments	-	97,219,677	97,219,677
	$ 64,603,685	$ 517,142,505	$ 581,746,190

The following items are included in the Net Assets at June 30, 2019 and 2018:

	2019 Without Donor Restrictions	2019 With Donor Restrictions	2019 Total
Endowment funds (per previous table)	$ 66,526,038	$ 554,483,494	$ 621,009,532
Non-endowment funds available for expenditure for purpose	27,397,561	49,775,876	77,173,437
Donor-restricted expendable gifts	-	171,029,632	171,029,632
Program related real estate	-	2,309,170	2,309,170
Net real estate and other depreciable property	-	7,290,004	7,290,004
Pledges receivable	149,957	70,769,316	70,919,273
Other assets and accrued income	2,459,392	3,790,502	6,249,894
Cash surrender value	264,271	7,191,938	7,456,209
Receivables from estates	-	1,776,585	1,776,585
Unitrust and annuity liabilities	-	(19,913,227)	(19,913,227)
Funds held for others	-	(13,161,228)	(13,161,228)
Accrued liabilities	(3,324,067)	(2,789,957)	(6,114,024)
	$ 93,473,152	$ 832,552,105	$ 926,025,257

	2018 Without Donor Restrictions	2018 With Donor Restrictions	2018 Total
Endowment funds (per previous table)	$ 64,603,685	$ 517,142,505	$ 581,746,190
Non-endowment funds available for expenditure for purpose	23,052,634	50,266,064	73,318,698
Donor-restricted expendable gifts	-	158,181,608	158,181,608
Program related real estate	-	2,403,800	2,403,800
Net real estate and other depreciable property	-	7,719,520	7,719,520
Pledges receivable	155,618	45,359,372	45,514,990
Other assets and accrued income	4,038,708	4,322,559	8,361,267
Cash surrender value	265,312	6,782,413	7,047,725
Receivables from estates	-	352,003	352,003
Unitrust and annuity liabilities	-	(19,518,068)	(19,518,068)
Funds held for others	-	(12,602,339)	(12,602,339)
Accrued liabilities	(4,763,318)	(2,383,698)	(7,147,016)
	$ 87,352,639	$ 758,025,739	$ 845,378,378

Changes in endowment net assets for the years ended June 30, 2019 and 2018, were:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ 64,603,685	$ 517,142,505	$ 581,746,190
Investment return	4,497,082	25,147,762	29,644,844
Contributions and collections on pledges and estates	81,306	29,300,229	29,381,535
Appropriation of endowment assets for expenditure and change in donor designation	(2,656,035)	(17,107,002)	(19,763,037)
Endowment net assets - End of year	$ 66,526,038	$ 554,483,494	$ 621,009,532

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ 58,164,404	$ 480,485,415	$ 538,649,819
Investment return	8,336,316	27,967,721	36,304,037
Contributions and collections on pledges and estates	404,710	28,532,572	28,937,282
Appropriation of endowment assets for expenditure and change in donor designation	(2,301,745)	(19,843,203)	(22,144,948)
Endowment net assets - End of year	$ 64,603,685	$ 517,142,505	$ 581,746,190

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. At June 30, 2019 and 2018, funds with original gift values of $48,077,775 and $105,501,866, fair values of $47,515,966 and $99,891,122, and deficiencies of $561,809 and $5,610,744 at June 30, 2019 and 2018, respectively, were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new 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, 2019 and 2018, the total return of the Endowment Pool was 6.80 percent and 9.15 percent, 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 4.5 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 percent of the market value 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.

Term endowed accounts are invested in the same manner as endowed accounts and share the same endowment pool operating costs. They differ from 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 percent underwater.

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

Note 6: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019, comprise the following:

	2019
Cash and cash equivalents	$ 6,090,496
Accounts receivable	115,988
Appropriations from endowments	628,159
	$ 6,834,643

The Foundation receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the year ended June 30, 2019, restricted contributions of $680,950 were included in financial assets available to meet cash needs for general expenditures within one year.

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board-designated endowments of approximately $13,628,000 which are utilized for general operations are subject to an annual spending rate as described in *Note 5*. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

The Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Foundation bases financial reserves targets on projected deficiencies in income streams due to market downturns or delays in payments. In addition to available financial assets, the Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover all general expenditures. The Foundation has a line of credit agreement with a third party lender. Under the terms of the line of credit agreement, the Foundation can borrow a maximum of $10 million for general corporate purposes. At June 30, 2019, the outstanding balance on the line of credit was $500,000 (see *Note 18*). During the year ended June 30, 2019, the level of liquidity and reserves was managed within the policy requirements.

Note 7: 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) – 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.

Total real estate held for investment for the benefit of Kansas State University at June 30, 2019 and 2018 was $65,864,184 and $62,210,940, respectively (see *Note 3*).

Note 8: Pledges Receivable

Pledges receivable consisted of the following at June 30, 2019 and 2018:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Due in less than one year	$ 61,506	$ 21,513,055	$ 21,574,561
Due in one to five years	104,747	53,882,065	53,986,812
Due thereafter	5,000	11,961,774	11,966,774
	171,253	87,356,894	87,528,147
Less			
Allowance for uncollectible contributions	2,321	1,711,108	1,713,429
Unamortized discount	18,975	14,876,470	14,895,445
	$ 149,957	$ 70,769,316	$ 70,919,273

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Due in less than one year	$ 57,919	$ 17,809,781	$ 17,867,700
Due in one to five years	112,859	32,020,414	32,133,273
Due thereafter	7,500	2,587,750	2,595,250
	178,278	52,417,945	52,596,223
Less			
Allowance for uncollectible contributions	3,204	942,036	945,240
Unamortized discount	19,456	6,116,537	6,135,993
	$ 155,618	$ 45,359,372	$ 45,514,990

Discount rate used on pledges receivable was 5.50 percent and 5.00 percent at June 30, 2019 and 2018, respectively.

As of June 30, 2019, approximately 34 percent of pledges receivable were due from two donors. As of June 30, 2018, approximately 13 percent of pledges receivable were due from two donors.

See significant estimate discussion regarding the allowance for doubtful collections in *Note 19*.

Approximately $43,061,000 and $27,592,000 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, 2019 and 2018, respectively.

Note 9: Property and Equipment

Property and equipment at June 30, 2019 and 2018, consisted of:

	2019	2018
Buildings and improvements	$ 13,895,529	$ 13,752,563
Furniture and equipment	2,597,312	2,180,022
Land	415,996	415,996
Other	92,988	33,758
	17,001,825	16,382,339
Less accumulated depreciation and amortization	(2,388,478)	(1,720,027)
	$ 14,613,347	$ 14,662,312

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:

	2019	2018
Land and land improvements	$ 3,809,010	$ 3,809,010
Buildings and improvements	5,416,841	5,395,154
Other	2,588,539	2,472,943
	11,814,390	11,677,107
Less accumulated depreciation and amortization	(4,524,386)	(3,957,587)
	$ 7,290,004	$ 7,719,520

Note 10: Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2019 are restricted for the following purposes or periods:

	2019	2018
Subject to expenditure for specific purpose		
Excellence and programs	$ 151,361,598	$ 145,559,462
Student enhancement	29,164,653	28,709,534
Facility enhancement	18,801,814	13,095,445
Faculty enhancement	9,084,725	10,573,419
Promises to give and other receivables restricted by donors for		
Excellence and programs	13,965,680	8,646,446
Student enhancement	2,182,084	2,604,651
Facility enhancement	33,966,390	24,008,146
Faculty enhancement	896,040	468,296
	259,422,984	233,665,399
Subject to the passage of time		
Charitable trusts and gift annuities	190,881	734,145
Real estate held for use	10,347,515	14,135,599
	269,961,380	248,535,143

	2019	2018
Endowments		
Subject to appropriation and expenditure when a specific event occurs		
Excellence and programs	$ 41,555,297	$ 41,246,586
Student enhancement	34,598,756	34,482,892
Facility enhancement	2,766,802	2,147,388
Faculty enhancement	2,928,097	3,730,941
	81,848,952	81,607,807
Promises to give and other receivables subject expenditure when a specific event occurs	1,043,665	1,350,771
Real estate held for specific event or appropriation	2,865,470	2,810,500
Trust assets to be held subject to appropriation when realized	683,884	495,438
	86,441,971	86,264,516
Subject to NFP endowment spending policy and appropriation		
Excellence and programs	73,628,747	61,681,386
Student enhancement	243,433,622	226,480,135
Facility enhancement	4,732,249	4,707,623
Faculty enhancement	86,499,053	77,622,933
Underwater endowments	(561,809)	(5,610,749)
	407,731,862	364,881,328
Promises to give and other receivables to be held in perpetuity	33,734,228	15,641,435
Real estate to be held in perpetuity	17,968,119	26,690,835
Trust assets to be held in perpetuity	16,714,545	16,012,482
Total net assets with donor restrictions	$ 832,552,105	$ 758,025,739

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:

	2019	2018
Expiration of time restrictions	$ 5,533,519	$ 6,407,309
Satisfaction or purpose restrictions		
Scholarships and other student awards	6,247,564	3,913,970
University support - Academic	6,599,574	6,627,350
University support - Administrative	52,869,121	39,290,880
University support - Capital Improvements	2,580,423	15,901,451
Other support	80,947	282,090
	68,377,629	66,015,741
Restricted-purpose spending-rate distributions and appropriations		
Scholarships and other student awards	10,127,467	11,856,501
University support - Academic	4,227,802	5,127,403
University support - Administrative	2,224,676	2,571,176
University support - Capital Improvements	387,462	285,623
Other support	139,595	2,500
	17,107,002	19,843,203
	$ 91,018,150	$ 92,266,253

Note 11: Unitrust and Annuity Liabilities

The Foundation has been the recipient of 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 4.00 percent to 11.50 percent. The assets received from donors are recorded at fair value. The Foundation has recorded a liability at June 30, 2019 and 2018, totaling $6,015,372 and $5,031,829, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 2.8 percent and 3.4 percent in 2019 and 2018, 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 contributions with donor restrictions 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 2.8 percent and 3.4 percent in 2019 and 2018, respectively, as well as applicable mortality tables, and amounted to $13,897,855 and $14,486,239 at June 30, 2019 and 2018, respectively. Total actuarial gains related to these agreements amounted to ($372,358) and $776,337 during 2019 and 2018, respectively.

Note 12: 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 a mandatory employer matching contribution of 10.0 percent for the years ended June 30, 2019 and 2018. Employees are fully vested when plan contributions are made. Employer contributions paid by the Foundation were $1,006,953 and $924,553 for the years ended June 30, 2019 and 2018, respectively.

The plan requires mandatory employee participation at time of hire with a minimum contribution of 5.5 percent.

Note 13: 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, 2019 and 2018, is as follows:

	2019	2018
Assets		
Cash	$ 344,368	$ 482,978
Real estate and other depreciable assets (net of depreciation)	7,290,004	7,719,520
Pledges receivable, net	1,399,315	1,217,732
Other assets	268,085	381,921
Total assets	9,301,772	9,802,151
Liabilities		
Accrued liabilities	357,794	312,087
Mortgages payable	429,106	703,216
Total net assets	$ 8,514,872	$ 8,786,848

	2019	2018
Revenue, gains and other support	$ 1,094,496	$ 1,933,826
Expenses and support	(1,366,472)	(1,304,848)
Change in Net Assets	(271,976)	628,978
Net Assets, Beginning of Year	8,786,848	8,157,870
Net Assets, End of Year	$ 8,514,872	$ 8,786,848

Note 14: 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, 2019 and 2018, is as follows:

	2019	2018
Assets		
Cash	$ 1,475	$ 6,769
Closely held stock (at fair value)	100,818,549	96,257,699
Total net assets	$ 100,820,024	$ 96,264,468
Sources		
Interest income	$ 226	$ 28
Net realized and unrealized gains (losses)	5,761,060	(13,126,050)
	5,761,286	(13,126,022)
Transfer to University for purpose and expenses	(1,205,730)	(1,204,478)
Change in Net Assets	4,555,556	(14,330,500)
Net Assets, Beginning of Year	96,264,468	110,594,968
Net Assets, End of Year	$ 100,820,024	$ 96,264,468

Note 15: 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, 2019 and 2018, is as follows:

	2019	2018
Assets		
Cash	$ 1,042,662	$ 531,651
Investments	29,675,485	29,276,333
Lease receivable	739,025	599,750
Assets held for sale	-	12,086,993
Loans receivable	6,000,000	-
Note receivable	10,374,000	10,374,000
Other assets	60,513	102,899
Total assets	47,891,685	52,971,626
Liabilities		
Accrued liabilities	2,287,377	1,427,606
Long-term debt	9,080,498	9,077,249
Line of credit	1,696,290	918,860
Total net assets	$ 34,827,520	$ 41,547,911
Revenue, gains and other support	$ 1,777,690	$ 17,335,526
Expenses and support	(8,498,081)	(2,616,696)
Change in Net Assets	(6,720,391)	14,718,830
Net Assets, Beginning of Year	41,547,911	26,829,081
Net Assets, End of Year	$ 34,827,520	$ 41,547,911

Note 16: Consolidation of Supporting Organization – 1880 Kimball

1880 Kimball, LLC (1880 Kimball) is a supporting organization and qualified active low-income community business (QALICB) formed to hold real estate investments and debt as part of the new market tax credit financing entered into during 2018 (see *Note 17*). A summary of financial information for 1880 Kimball at and for the years ended June 30, 2019 and 2018, is as follows:

	2019	2018
Assets		
Cash	$ 376,266	$ 3,618,271
Investments	15,311,557	13,550,686
Other assets	347,727	48,917
Total assets	16,035,550	17,217,874
Liabilities		
Accrued liabilities	153,916	2,007,756
Long-term debt	15,503,749	14,211,390
Total net assets	$ 377,885	$ 998,728
Revenue, gains and other support	$ 532,906	$ (1,122,864)
Expenses and support	(1,153,749)	(78,408)
Change in Net Assets	(620,843)	(1,201,272)
Net Assets, Beginning of Year	998,728	2,200,000
Net Assets, End of Year	$ 377,885	$ 998,728

Note 17: New Market Tax Credit Financing

During 2018, the Foundation and its newly formed subsidary 1880 Kimball, LLC began participation in a New Market Tax Credit (NMTC) program. NMTC programs were established as part of the *Community Renewal Tax Relief Act* of 2000. The goal of the NMTC programs is to spur revitalization efforts of low-income and impoverished communities across the Unites States and its Territories by providing tax credit incentives to investors in certain community development entities. The tax credit for investors equals 39 percent of the investment, and investors receive the tax credit over a seven year period. A community development entity (CDE) is required to participate and has the primary mission of providing the financing for revitalization project in low-income communities.

NMTC financing allows entities such as the Foundation to receive low-interest loans or investment capital from CDEs, primarily financial institutions, which will allow their investors to receive tax credits. As a result of participation in the NMTC program, the Foundation obtained $14,650,000 of financing for the construction and outfitting of a new office building that was completed and placed in operations in 2019.

The Foundation's NMTC program was formed based on the following series of transactions:

- USBCDC Investment Fund 199, LLC (Fund 199) was formed in March 2017 with $5.031 million of equity in the form of NMTCs infused by U.S. Bancorp Community Development Corporation (USBCDC).

- KSUCREF obtained a $9.097 million loan from a bank (see *Note 18*). The Foundation also provided $1.3 million in cash to KSUCREF. $10.374 million in net proceeds were in turn loaned to Fund 199 by KSUCREF, which is recorded as a note receivable in the consolidated statements of financial position.

- The Foundation formed a wholly owned subsidiary, 1880 Kimball, LLC, which was the qualified active low-income community business (QALICB) established to hold the land and building development project.

- Fund 199 invested $15.0 million in its 99.99 percent owned qualified low income community investment subsidiaries (sub-CDEs) for purposes of making a qualified low income community investment loan (QLICI) to QALICB.

- Two Community Development Entities owned the remaining 0.01 percent of Sub-CDE and committed to providing financing to QALICB in the form of loans totaling $14.65 million (the "CDE loans") in exchange for the tax credits.

1880 Kimball also obtained a direct loan with a bank to provide additional construction lending, if necessary. As of June 30, 2019 and 2018, the balance drawn on the construction note was $419,258 and $0.

The Foundation has entered into lease arrangements with third party entities to occupy the building. The rental payments received by 1880 Kimball will be used to fund the debt service payments.

Note 18: Long-term Debt

	2019	2018
Kansas State Revenue Bonds (A)	$ 8,001,452	$ 14,579,913
KSUGCMRF Notes Payable, Kansas State Bank (B)	429,106	703,216
Capital Equipment Leases, Various Financiers (C)	128,310	186,967
Lines of Credit, Various Financiers (D)	2,196,290	918,860
KSUCREF Note Payable, Intrust Bank (E)	9,096,742	9,096,742
1880 Kimball Notes Payable, Various Financiers (F)	14,650,000	14,650,000
Other Notes Payable, Various Financiers (G)	3,666,140	2,593,007
	38,168,040	42,728,705
Less unamortized debt issuance costs	(621,351)	(738,239)
	$ 37,546,689	$ 41,990,466

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 percent to 5 percent with scheduled semi-annual payments beginning April 1, 2014 through October 1, 2033. Unamortized debt issuance costs were $209,503 and $224,467 at June 30, 2019 and 2018, respectively.

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 repayment term of the 2014M-2 bonds was amended and extended on November 28, 2017 and December 21, 2017. In 2019, the Foundation repaid the bonds in full. Unamortized debt issuance costs were $0 and $50,668 at June 30, 2019 and 2018, respectively.

(B) On May 15, 2014, KSUGCMRF refinanced previously issued notes payable and line of credit with Kansas State Bank. One promissory note was issued with a maturity date of July 2020. Interest rate is 4.49 percent with semi-annual payments totaling approximately $58,000; guaranteed personally by certain donors.

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 percent, payable $82,819 bi-annually; secured by certain property and equipment.

On June 2, 2017, KSUGCMRF refinanced previously issued notes payable with Kansas State Bank. One promissory note was issued with a maturity date of February 2020. Interest rate is 3.89 percent with semi-annual payments totaling approximately $64,000; secured by certain property and equipment purchased with loan proceeds.

(C) Capital equipment leases relating to various computer hardware and vehicles, issued by several financiers. First lease expires May 2019 with required annual payments of $28,952 at an imputed rate of 2.4 percent. Lease expiring March 2019 with required quarterly payments of $2,469 at an imputed rate of 2.4 percent. Lease expiring September 2022 with required quarterly payments of $9,825 at an imputed rate of 4.79 percent. Lease expiring May 2021 with required monthly payments of $600 at an imputed rate of 4.50 percent.

(D) The Foundation has a $6,900,000 revolving bank line of credit expiring in September 2020. The line of credit was amended in March 2018, decreasing the available funds to $3,000,000 and extending expiration date to March 2021. There was $1,696,290 and $918,860 borrowed against the line at June 30, 2019 and 2018, respectively. The line is collateralized by certain real property assets of the Foundation. Interest varies with the bank's prime rate, less 0.5 percent, never to be less than 2 percent, as calculated at interest date. The amendment modified the interest calculation method to be variable based on the one-month LIBOR rate, plus 1.75 percent.

The Foundation also has a $10,000,000 revolving bank line of credit expiring in September 2023. There was $500,000 and $0 borrowings against the line at June 30, 2019 and 2018, respectively. The line is collateralized by certain real property assets of the Foundation. The interest rate is variable based on the one-month LIBOR rate, plus 1.15 percent. Unamortized debt issuance costs were $27,595 and $0 at June 30, 2019 and 2018, respectively.

(E) Due in July 2024; monthly interest-only payments beginning August 2017 through July 2020; monthly repayments of $55,605 beginning in August 2020 through maturity with remaining principal and interest due upon maturity. Interest rate is set at a fixed rate of 4.10 percent. Loan is secured by certain assets and property of KSUCREF, as defined. Issued as part of the new market tax credit agreement (see *Note 17*).

(F) Due in July 2052 from two lenders (CBKC Sub-CDE & NCIF Sub-CDE) through four promissory notes (CBKC Note A in the amount of $6,948,500, CBKC Note B in the amount of $2,851,500, NCIF Note A in the amount of $3,425,500, NCIF Note B in the amount of $1,424,500). Periodic payments on the notes are as follows:

- Monthly interest-only payments beginning in September 2017 through September 2024;
- In July 2024, an aggregate principal payment of $9,431,892 (CBKC Note A - $6,092,993, CBKC Note B - $285,150, NCIF Note A - $3,003,749, NCIF Note B - $50,000) plus interest is due;
- Beginning in October 2024, aggregate quarterly principal and interest payments of $55,513 (CBKC Note A - $9,101, CBKC Note B - $27,302, NCIF Note A - $4,487, NCIF Note B - $14,623) through June 2033;
- Beginning in September 2033, quarterly payments of principal and interest to fully amortize the principal amount of the loans through the maturity date.

Interest rate is set at a fixed rate of 2.89 percent. Loans are secured by mortgages and improvements on property constructed with loan proceeds. Issued as part of the new market tax credit agreement (see *Note 17*). Unamortized debt issuance costs were $381,753 and $458,104 at June 30, 2019 and 2018, respectively.

(G) Due in November 2020; quarterly principal and interest payments of $35,664 beginning in January 2018 through October 2020 with a balloon payment of all unpaid principal and interest due on maturity. Interest is set at a fixed rate of 2.65 percent. The credit agreement is collateralized by certain real property assets of the Foundation. Unamortized debt issuance costs were $2,500 and $5,000 at June 30, 2019 and 2018, respectively. Borrowings on this note were $2,446,882 and $2,593,007 as of June 30, 2019 and 2018, respectively.

The credit agreement, among other provisions, contains a financial covenant, which includes that the Foundation maintain a liquidity coverage ratio of 1.10 to 1.00 as defined in the credit agreement. Management of the Foundation has provided this calculation to the bank certifying their compliance with this covenant as of June 30, 2019.

The Foundation also has available credit through a construction loan agreement with a bank with a maximum commitment of $1,219,258 that matures in July 2024. Interest is variable at the Prime rate less 0.25 percent prior to the construction completion date, as defined, and five-year treasury bond rate plus 2.20 percent subsequent to the construction completion date. As part of the credit agreement, the Foundation is required to maintain certain financial covenants, including a minimum liquidity ratio of 1.10 to 1.00 and minimum debt service coverage ratio of 1.15 to 1.00. Borrowings on this note were $419,258 and $0 at June 30, 2019 and 2018, respectively.

Due in August 2031; annual repayments of $160,000 beginning in October 2026. Note is interest free. The note contains certain provisions that allow forgiveness on up to $400,000 of the note balance upon achievement and maintenance of certain employment requirements, as defined in the agreement. Borrowings on this note were $800,000 and $0 as of June 30, 2019 and 2018, respectively.

Aggregate annual maturities of long-term debt at June 30, 2019, are:

2020	$ 810,921
2021	4,657,359
2022	643,121
2023	661,706
2024	1,355,843
Thereafter	29,417,739
	$ 37,546,689

Total interest expense on long-term debt amounted to $1,573,638 and $1,025,484 during 2019 and 2018, respectively.

Note 19: 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.

Contributions

Approximately 19 percent of all contributions were received from one donor in 2019 and approximately 24 percent of all contributions were received to benefit one fund in 2019.

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, 2019 and 2018, the closely held stock by the Foundation for Engineering at Kansas State University, Inc. approximates 10 percent and 10 percent 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 20: Other Support Revenue

Performance obligations are determined based on the nature of the services provided by the Foundation in accordance with the contract. Performance obligations accounted for within other support revenue include revenues earned for fundraising and administrative services, investment management services and other revenues. Revenue for performance obligations satisfied over time is recognized ratably over the period based on time elapsed. The Foundation believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Revenue for performance obligations satisfied at a point in time is generally recognized when services are provided at a single point in time and the Foundation does not believe it is required to provide additional services related to that sale.

Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations

Because all of its performance obligations relate to contracts with a duration of less than one year, the Foundation has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to fundraising and administrative services and investment management services. The performance obligations for these contracts are generally satisfied at the end of the contract period.

Significant Judgments

The Foundation determines the transaction price based on standard charges for services provided. The Foundation has minimal exposure to discounts, allowances, price concessions or other components of variable transaction price.

Disaggregation of Revenue

The composition of revenue based on services provided and timing of revenue recognition for the year ended June 30, 2019, are as follows:

	2019
Pooled endowment fund fee income	$ 8,595,434
Sole source revenue	3,644,650
University advancement fee income	2,987,002
Other	2,183,575
Operational service charges, management fees and other	$ 17,410,661
Service lines	
Departmental deposits	$ 2,445,666
Other	701,632
University departmental activities and funding allotments, etc.	$ 3,147,298
Timing of revenue and recognition	
Services transferred over time	$ 17,410,661
Sales at point in time	3,147,298
Total	$ 20,557,959

Note 21: 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 $501,000,000 and $438,000,000 at June 30, 2019, 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 22: 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.

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 $1,239,025 and $1,599,750 in lease receivables recorded in other assets and accrued investment income for the years ended June 30, 2019 and 2018, 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 percent. The loans are lines of credit guaranteed by funds for the University and/or colleges and require quarterly or annual interest payments.

At June 30, 2019 and 2018, 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, 2019	Loans Receivable Outstanding at June 30, 2018
College of Agriculture	Flour Mill	$ 1,000,000	March 1, 2022	$ 1,000,000	$ 1,000,000
College of Technology	Salina Locker Room Project	270,000	June 30, 2019	270,000	273,047
Smith Scholarship House	Smith Scholarship House	201,000	April 1, 2025	119,995	139,891

Note 23: Subsequent Events

Subsequent events were evaluated through September 27, 2019, which is the date the consolidated financial statements were available to be issued.

In August 2019, the Foundation entered into a bonding agreement with the Kansas Development Finance Authority ("KDFA"), where the KDFA issued $8.765MM in a series of bonds to fund the construction of a laboratory for the Kansas Department of Agriculture ("KDA"). The bonds will bear interest at rates from 2.0 to 3.0 percent, with maturity dates from 2021 to 2049. Concurrently with the credit agreement, the Foundation entered into a long-term lease with the KDA, whose ongoing lease payments will fund the debt service payments on the bonds.