

# **Kansas State University Foundation**

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2018 and 2017



**Kansas State University Foundation**  
**June 30, 2018 and 2017**

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## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kansas State University Foundation and its supporting organizations (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

The Board of Directors of  
Kansas State University Foundation  
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*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kansas State University Foundation and its supporting organizations as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BKD, LLP*

Kansas City, Missouri  
September 27, 2018

**Kansas State University Foundation**  
**Consolidated Statements of Financial Position**  
**June 30, 2018 and 2017**

**Assets**

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 94,377,144	\$ 40,750,425
Investments	725,912,881	736,877,668
Pledges receivable – net of allowance and discounts	45,514,990	52,837,994
Receivables from estates	352,003	803,500
Loans receivable	227,432	251,711
Property and equipment, net of accumulated depreciation; 2018 - \$1,720,027, 2017 - \$1,111,083	14,662,312	14,727,869
Assets held for sale	12,086,993	-
Golf Course property and equipment, net of accumulated depreciation; 2018 - \$3,957,587, 2017 - \$3,402,527	7,719,520	7,950,635
Note receivable	10,374,000	-
Cash surrender value of life insurance policies	7,047,725	6,266,590
Other assets and accrued investment income	8,361,267	7,972,012
	<u>\$ 926,636,267</u>	<u>\$ 868,438,404</u>
Total assets		

**Liabilities and Net Assets**

**Liabilities**

Accounts payable, deposits and other liabilities	\$ 2,531,114	\$ 1,847,477
Accrued liabilities	4,615,902	2,622,611
Assets held for others	12,602,339	12,291,179
Unitrust and annuity liabilities	19,518,068	19,845,203
Long-term debt and lines of credit	41,990,466	17,904,068
	<u>81,257,889</u>	<u>54,510,538</u>
Total liabilities		

**Net Assets**

Unrestricted net assets	81,741,895	78,039,635
Temporarily restricted net assets	349,837,551	354,308,659
Permanently restricted net assets	413,798,932	381,579,572
	<u>845,378,378</u>	<u>813,927,866</u>
Total net assets		
	<u>\$ 926,636,267</u>	<u>\$ 868,438,404</u>
Total liabilities and net assets		

**Kansas State University Foundation**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2018**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>				
Contributions	\$ 3,331,420	\$ 66,325,293	\$ 29,802,065	\$ 99,458,778
Provision for bad debts	(13,782)	1,123,514	(234,056)	875,676
Net contribution revenue, less provision for bad debts	<u>3,317,638</u>	<u>67,448,807</u>	<u>29,568,009</u>	<u>100,334,454</u>
Investment income (loss), net	(5,965,521)	(136,420)	625,865	(5,476,076)
Net realized and unrealized gains on investments	15,724,866	17,605,946	11,129	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)	238,013	2,273,260	776,337
Net assets released from restrictions and change in donor designation	<u>92,266,253</u>	<u>(92,007,350)</u>	<u>(258,903)</u>	<u>-</u>
Total revenues, gains and other support	<u>120,272,760</u>	<u>(4,471,108)</u>	<u>32,219,360</u>	<u>148,021,012</u>
<b>Expenses and Support</b>				
Direct University support				
Scholarships and other student awards	17,860,603	-	-	17,860,603
Academic	14,111,148	-	-	14,111,148
Administrative – Faculty and student support	48,708,938	-	-	48,708,938
Capital improvements	<u>16,238,785</u>	<u>-</u>	<u>-</u>	<u>16,238,785</u>
Subtotal	96,919,474	-	-	96,919,474
Investment – loan interest expense and write-off	1,099,937	-	-	1,099,937
Foundation administration and fundraising	<u>18,551,089</u>	<u>-</u>	<u>-</u>	<u>18,551,089</u>
Total expenses and support	<u>116,570,500</u>	<u>-</u>	<u>-</u>	<u>116,570,500</u>
<b>Change in Net Assets</b>	3,702,260	(4,471,108)	32,219,360	31,450,512
<b>Net Assets, Beginning of Year</b>	<u>78,039,635</u>	<u>354,308,659</u>	<u>381,579,572</u>	<u>813,927,866</u>
<b>Net Assets, End of Year</b>	<u>\$ 81,741,895</u>	<u>\$ 349,837,551</u>	<u>\$ 413,798,932</u>	<u>\$ 845,378,378</u>

**Kansas State University Foundation**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2017**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>				
Contributions	\$ 2,841,289	\$ 65,326,398	\$ 16,890,933	\$ 85,058,620
Provision for bad debts	(1,730)	(2,662,012)	(112,319)	(2,776,061)
Net contribution revenue, less provision for bad debts	<u>2,839,559</u>	<u>62,664,386</u>	<u>16,778,614</u>	<u>82,282,559</u>
Investment income (loss), net	(3,886,931)	(384,849)	380,236	(3,891,544)
Net realized and unrealized gains (losses) on investments	16,980,550	28,731,886	(1,470,535)	44,241,901
Other support				
Operational service charges, management fees and other	15,416,949	(30,346)	-	15,386,603
Receipts for grants, research, supplies, travel and other University departmental activities and funding allotments, etc.	713,757	2,702,705	-	3,416,462
Actuarial gains (losses) on unitrusts and annuity obligations	-	(618,113)	672,868	54,755
Net assets released from restrictions and change in donor designation	<u>84,204,532</u>	<u>(84,541,072)</u>	<u>336,540</u>	<u>-</u>
Total revenues, gains and other support	<u>116,268,416</u>	<u>8,524,597</u>	<u>16,697,723</u>	<u>141,490,736</u>
<b>Expenses and Support</b>				
Direct University support				
Scholarships and other student awards	18,437,592	-	-	18,437,592
Academic	13,230,069	-	-	13,230,069
Administrative – Faculty and student support	43,005,731	-	-	43,005,731
Capital improvements	<u>13,612,562</u>	<u>-</u>	<u>-</u>	<u>13,612,562</u>
Subtotal	88,285,954	-	-	88,285,954
Investment – loan interest expense and write-off	562,458	-	-	562,458
Foundation administration and fundraising	<u>18,137,172</u>	<u>-</u>	<u>-</u>	<u>18,137,172</u>
Total expenses and support	<u>106,985,584</u>	<u>-</u>	<u>-</u>	<u>106,985,584</u>
<b>Change in Net Assets</b>	9,282,832	8,524,597	16,697,723	34,505,152
<b>Net Assets, Beginning of Year</b>	<u>68,756,803</u>	<u>345,784,062</u>	<u>364,881,849</u>	<u>779,422,714</u>
<b>Net Assets, End of Year</b>	<u>\$ 78,039,635</u>	<u>\$ 354,308,659</u>	<u>\$ 381,579,572</u>	<u>\$ 813,927,866</u>

**Kansas State University Foundation**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating Activities</b>		
Change in net assets	\$ 31,450,512	\$ 34,505,152
Items not requiring (providing) operating activities cash flows		
Depreciation	1,235,743	1,173,575
Amortization of bond issuance premium and debt issuance costs	85,331	(22,961)
Net realized and unrealized gains on investments	(33,341,941)	(44,241,901)
Contributions and investment income received restricted for long-term investment and capital projects	(64,707,033)	(33,920,949)
Contributions for term endowment	(1,533,764)	(1,161,317)
Non-cash contributions	(38,889,333)	(18,307,062)
Non-cash transfers to Kansas State University	3,109,648	3,012,064
Net actuarial gains on unitrust and annuity obligations	(776,337)	(54,755)
Changes in		
Pledges receivable	7,323,004	5,838,195
Receivables from estates	451,497	2,074,082
Loans receivable	24,279	(51,868)
Other assets and accrued investment income	(1,057,764)	687,697
Accounts payable and accrued liabilities	2,576,036	(1,700,563)
Assets held for others	311,160	775,393
Net cash used in operating activities	<u>(93,738,962)</u>	<u>(51,395,218)</u>
<b>Investing Activities</b>		
Purchase of investments	(136,100,682)	(94,045,397)
Purchase of real estate	(14,797,332)	(1,359,211)
Proceeds from sale of investments	219,861,544	92,574,742
Expenditures for property and equipment	(767,374)	(1,101,340)
Proceeds from sale of long-lived assets	710,787	582,266
Issuance of notes receivable	(10,374,000)	-
Cash surrender value of life insurance policies	(781,135)	(480,581)
Net cash provided by (used in) investing activities	<u>57,751,808</u>	<u>(3,829,521)</u>
<b>Financing Activities</b>		
Proceeds from contributions and investment income restricted for long-term investment and capital projects	64,707,033	33,920,949
Contributions for term endowment	1,533,764	1,161,317
Proceeds from issuance of long-term debt	26,481,639	535,368
Principal payments on long-term debt	(2,021,684)	(1,738,946)
Payments for debt issuance costs	(452,604)	-
Net borrowings under line of credit agreement	(204,500)	162,994
Proceeds from issuance of annuities and trusts payable	1,826,962	2,214,594
Payments on annuities and trusts payable	(2,256,737)	(2,419,430)
Net cash provided by financing activities	<u>89,613,873</u>	<u>33,836,846</u>
<b>Change in Cash and Cash Equivalents</b>	53,626,719	(21,387,893)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>40,750,425</u>	<u>62,138,318</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 94,377,144</u>	<u>\$ 40,750,425</u>



**Kansas State University Foundation**  
**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Supplemental Disclosures of Cash Flows Information</b>		
Cash paid during the year for interest	\$ 1,025,484	\$ 495,258
Receivable for sale of the Foundation building	-	1,500,000
Capital lease obligation incurred for property and equipment	198,216	-

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

**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. 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, 2018 and 2017, cash equivalents consisted primarily of uninsured money market mutual funds totaling \$90,095,707 and \$29,100,700, respectively, and certificates of deposit.

At June 30, 2018, the Foundation's cash accounts exceeded federally insured limits by approximately \$4,805,000.

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

***Investments and Investment Return***

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

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

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

***Receivables***

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

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

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

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

***Property and Equipment***

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

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

***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 is under contract and expected to close during the fourth quarter of 2018. 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, 2018 and 2017.

***Temporarily and Permanently Restricted Net Assets***

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

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

***Contributions***

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

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

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

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.

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

***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.

**Note 2: Investments and Investment Return**

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

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

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

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, 2018 and 2017, were as follows:

	<b>2018</b>		
	<b>Pooled Fund</b>		<b>Total</b>
	<b>Endowment</b>	<b>Other</b>	<b>Investments</b>
	<b>Pool</b>	<b>Investments</b>	<b>Investments</b>
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
Futures	23,138,613	-	23,138,613
Hedge funds			
Absolute return	5,458,292	2,175,193	7,633,485
Long/short equity	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	-	126,118	126,118
	<u>\$ 502,550,680</u>	<u>\$ 223,362,201</u>	<u>\$ 725,912,881</u>

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

	<b>2017</b>		
	<b>Pooled Fund</b>		<b>Total</b>
	<b>Endowment</b>	<b>Other</b>	<b>Investments</b>
	<b>Pool</b>	<b>Investments</b>	<b>Investments</b>
Marketable equity securities	\$ 87,150,422	\$ 50,501,442	\$ 137,651,864
Pooled separate funds			
Equity securities	132,495,288	9,780,973	142,276,261
Fixed income	7,072,005	-	7,072,005
U.S. Government and agency obligations	-	4,372,263	4,372,263
Corporate bonds and other fixed income securities	-	56,219	56,219
Private capital			
Real estate investments	17,070,354	-	17,070,354
Venture capital	50,167,023	321,815	50,488,838
Domestic private equity	25,269,722	-	25,269,722
International private equity	13,141,448	-	13,141,448
Private capital distressed debt	4,274,402	-	4,274,402
Natural resources	18,202,159	-	18,202,159
Fixed income	568,314	-	568,314
Hedge funds			
Absolute return	21,339,825	8,460,659	29,800,484
Long/short equity	82,426,089	-	82,426,089
Futures contracts			
Money market mutual fund	39,670,348	-	39,670,348
Restricted cash - margin requirement	6,917,757	-	6,917,757
Open trade equity	(1,427,321)	-	(1,427,321)
Closely held common stock	-	110,583,749	110,583,749
Real estate held for investment	-	48,419,882	48,419,882
Other securities and investments	-	42,831	42,831
	<u>\$ 504,337,835</u>	<u>\$ 232,539,833</u>	<u>\$ 736,877,668</u>

The Foundation’s endowment pool strives to achieve long term capital appreciation and consistent income by utilizing a “total return investment strategy.” The Foundation uses an inflation adjusted distribution policy attempting to provide a stable revenue stream to the University while maintaining intergenerational equity. The distributions from the endowment pool are calculated by adjusting the prior year’s distribution amount annually for inflation. To avoid potential unconscionable under-distributions or unsustainable over-distributions relative to the endowment pool market value, the annual inflation adjusted distribution is limited to maximum and minimum total distributions to purpose. The maximum distributions to purpose are 5 percent of market value and the minimum distributions are 3 percent, both of which are calculated annually using the market value at the beginning of the fiscal year. This action is consistent with the Board of Directors’ long term strategic plans and attempts to treat all generations equitably and protect future purchasing power.



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A volatility cap overlay is in effect for the Endowment Pool. Ten percent of the Endowment Pool market value was placed in money market funds as potential collateral on exchange-traded futures contracts should volatility of the replicated portfolio reach the trigger of 25 percent. The volatility cap overlay strategy was terminated during the year ended June 30, 2018, and the Foundation no longer holds any direct investments in futures contracts. Until that volatility level is reached, exchange-traded futures contracts are held to replicate exposures of that ten percent of the Endowment Pool, and collateral of \$0 and \$6,917,757 is held in a margin account at Goldman Sachs as of June 30, 2018 and 2017, respectively.

Investment managers' fees totaled approximately \$6,014,000 and \$5,395,000 for the years ended June 30, 2018 and 2017, respectively.

Total investment return for the years ended June 30, 2018 and 2017, is comprised of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends, net of Operational Service Charges and Management Fees	\$ (5,476,076)	\$ (3,891,544)
Net realized and unrealized gains on investments reported at fair value	<u>33,341,941</u>	<u>44,241,901</u>
	<u>\$ 27,865,865</u>	<u>\$ 40,350,357</u>

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**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, 2018 and 2017:

	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	-	Daily	1 day
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	None	None
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

	June 30, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled separate funds (A)				
Equity securities	\$ 142,276,261	\$ -	Monthly	5-45 days
Fixed income securities	7,072,005	-	Monthly	5-45 days
Private capital (B)				
Real estate investments	17,070,354	11,001,722	None	None
Venture capital	50,488,838	28,883,965	None	None
Domestic private equity	25,269,722	42,763,266	None	None
International private equity	13,141,448	10,200,705	None	None
Private capital distressed				
debt - Liquid	1,760,800	4,872,798	None	None
Private capital distressed				
debt - Illiquid	2,513,602	2,316,400	Annual	120 days
Natural resources	18,202,159	14,058,561	None	None
Fixed income	568,314	4,425,000	None	None
Hedge funds				
Absolute return (C)	29,800,484	-	Monthly to Annually	45 days
Long/short equity (D)	82,426,089	-	Monthly to Annually	30-90 days

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- (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, 2018.

**Note 3: Disclosures About Fair Value of Assets and Liabilities**

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

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

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**Recurring Measurements**

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and 2017:

	2018				
	Fair Value	Fair Value Measurements			
		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 <sup>(A)</sup>
<b>Cash and Cash Equivalents</b>					
Money market mutual funds	\$ 90,095,707	\$ 90,095,707	\$ -	\$ -	\$ -
<b>Investments</b>					
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					
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
	<u>\$ 816,008,588</u>	<u>\$ 206,783,049</u>	<u>\$ 7,434,594</u>	<u>\$ 158,468,639</u>	<u>\$ 443,322,306</u>

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	2017				
	Fair Value	Fair Value Measurements			
		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 <sup>(A)</sup>
<b>Cash and Cash Equivalents</b>					
Money market mutual funds	\$ 29,100,700	\$ 29,100,700	\$ -	\$ -	\$ -
<b>Investments</b>					
Marketable equity securities	137,651,864	137,651,864	-	-	-
Pooled separate funds					
Equity securities					
measured at net asset value (A)	142,276,261	-	-	-	142,276,261
Fixed income					
measured at net asset value (A)	7,072,005	-	-	-	7,072,005
U.S. Government and					
agency obligations	4,372,263	-	4,372,263	-	-
Corporate bonds and other					
fixed income securities	56,219	-	56,219	-	-
Private capital					
Real estate investments					
measured at net asset value (A)	17,070,354	-	-	-	17,070,354
Venture capital					
measured at net asset value (A)	50,488,838	-	-	-	50,488,838
Domestic private equity					
measured at net asset value (A)	25,269,722	-	-	-	25,269,722
International private equity					
measured at net asset value (A)	13,141,448	-	-	-	13,141,448
Private capital distressed debt					
measured at net asset value (A)	4,274,402	-	-	-	4,274,402
Natural resources					
measured at net asset value (A)	18,202,159	-	-	-	18,202,159
Fixed income					
measured at net asset value (A)	568,314	-	-	-	568,314
Hedge funds					
Absolute return					
measured at net asset value (A)	29,800,484	-	-	-	29,800,484
Long/short equity					
measured at net asset value (A)	82,426,089	-	-	-	82,426,089
Futures contracts					
Money market mutual fund	39,670,348	39,670,348	-	-	-
Restricted cash - margin requirement	6,917,757	6,917,757	-	-	-
Open trade equity	(1,427,321)	-	(1,427,321)	-	-
Closely held common stock	110,583,749	-	-	110,583,749	-
Real estate held for investment	48,419,882	-	-	48,419,882	-
Other securities and					
investments measured at net asset value (A)	42,831	-	-	-	42,831
	<u>\$ 765,978,368</u>	<u>\$ 213,340,669</u>	<u>\$ 3,001,161</u>	<u>\$ 159,003,631</u>	<u>\$ 390,632,907</u>

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

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Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

***Investments***

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

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

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**Level 3 Reconciliation**

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

	<b>Asset (Closely Held Common Stock)</b>	<b>Asset (Real Estate Held for Investment)</b>	<b>Total</b>
Balance, July 1, 2016	\$ 107,360,639	\$ 45,386,918	\$ 152,747,557
Total realized and unrealized gains (losses) included in change in net assets	4,423,350	(843,313)	3,580,037
Purchases/donations	-	6,377,197	6,377,197
Sales/redemptions	(1,200,240)	(2,500,920)	(3,701,160)
Balance, June 30, 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	<u>\$ 96,257,699</u>	<u>\$ 62,210,940</u>	<u>\$ 158,468,639</u>

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

	<b>2018</b>	<b>2017</b>
Total realized gains	\$ 563,521	\$ 1,815,510
Change in unrealized gains (losses) relating to assets still held at the statement of financial position date	(15,661,080)	1,764,527

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**Unobservable (Level 3) Inputs**

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

<u>June 30, 2018</u>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>
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
<u>June 30, 2017</u>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>
Closely held common stock	\$ 110,583,749	Capitalization of Cash Flow	Risk free rate - 2.4% WACC - 10.4% Long-term growth - 4.0%
		Market approach	
		Guideline Company Method	Lack of marketability discount - 32%
		Private Transaction Method	Minority interest discount - 20.1%
Real estate held for investment	48,419,882	Sales Comparison	Property sales of like properties Comparative advantages and deficiencies
		Property tax appraisals	Values determined by local county

**Note 4: Endowment**

The Foundation's endowment consists of approximately 3,900 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

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



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

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

The composition of net assets by type of endowment fund at June 30, 2018 and 2017, was as follows:

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowments				
Market value of endowments	\$ (5,610,744)	\$ 15,175,210	\$ 410,358,362	\$ 419,922,828
Board-designated endowments				
Board designated	26,136,980	-	-	26,136,980
Board policy to address underwater endowments	38,466,705	-	-	38,466,705
Term endowments	-	97,219,677	-	97,219,677
	<u>\$ 58,992,941</u>	<u>\$ 112,394,887</u>	<u>\$ 410,358,362</u>	<u>\$ 581,746,190</u>

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowments				
Market value of endowments	\$ (8,670,000)	\$ 6,035,034	\$ 384,366,269	\$ 381,731,303
Board-designated endowments				
Board designated	28,679,970	-	-	28,679,970
Board policy to address underwater endowments	38,154,434	-	-	38,154,434
Term endowments	-	90,084,112	-	90,084,112
	<u>\$ 58,164,404</u>	<u>\$ 96,119,146</u>	<u>\$ 384,366,269</u>	<u>\$ 538,649,819</u>

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The following items are included in the Net Assets at June 30, 2018 and 2017:

	<b>2018</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment Funds (per previous table)	\$ 58,992,941	\$ 112,394,887	\$ 410,358,362	\$ 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	-	291,800	2,112,000	2,403,800
Net real estate and other depreciable property	-	7,719,520	-	7,719,520
Pledges receivable	155,618	33,576,429	11,782,943	45,514,990
Other assets and accrued income	4,038,708	2,437,751	1,884,808	8,361,267
Cash surrender value	265,312	3,135,242	3,647,171	7,047,725
Receivables from estates	-	210,447	141,556	352,003
Unitrust and annuity liabilities	-	(3,683,097)	(15,834,971)	(19,518,068)
Funds held for others	-	(12,309,402)	(292,937)	(12,602,339)
Accrued liabilities	(4,763,318)	(2,383,698)	-	(7,147,016)
	<u>\$ 81,741,895</u>	<u>\$ 349,837,551</u>	<u>\$ 413,798,932</u>	<u>\$ 845,378,378</u>

	<b>2017</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment Funds (per previous table)	\$ 58,164,404	\$ 96,119,146	\$ 384,366,269	\$ 538,649,819
Non-endowment funds available for expenditure for purpose	18,619,030	45,117,685	-	63,736,715
Donor-restricted expendable gifts	-	169,747,176	-	169,747,176
Program related real estate	-	281,900	2,287,995	2,569,895
Net real estate and other depreciable property	-	7,950,635	-	7,950,635
Pledges receivable	118,999	47,028,459	5,690,536	52,837,994
Other assets and accrued income	3,603,457	2,422,533	1,946,022	7,972,012
Cash surrender value	280,316	3,159,701	2,826,573	6,266,590
Receivables from estates	-	220,007	583,493	803,500
Unitrust and annuity liabilities	-	(4,003,216)	(15,841,987)	(19,845,203)
Funds held for others	-	(12,011,850)	(279,329)	(12,291,179)
Accrued liabilities	(2,746,571)	(1,723,517)	-	(4,470,088)
	<u>\$ 78,039,635</u>	<u>\$ 354,308,659</u>	<u>\$ 381,579,572</u>	<u>\$ 813,927,866</u>

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Changes in endowment net assets for the years ended June 30, 2018 and 2017, were:

	<b>2018</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets -				
Beginning of year	\$ 58,164,404	\$ 96,119,146	\$ 384,366,269	\$ 538,649,819
Investment return	2,725,572	31,245,002	2,333,463	36,304,037
Contributions and collections on pledges and estates	404,710	4,615,039	23,917,533	28,937,282
Appropriation of endowment assets for expenditure and change in donor designation	<u>(2,301,745)</u>	<u>(19,584,300)</u>	<u>(258,903)</u>	<u>(22,144,948)</u>
Endowment net assets -				
End of year	<u>\$ 58,992,941</u>	<u>\$ 112,394,887</u>	<u>\$ 410,358,362</u>	<u>\$ 581,746,190</u>
	<b>2017</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets -				
Beginning of year	\$ 53,587,572	\$ 86,260,595	\$ 365,374,271	\$ 505,222,438
Investment return	6,416,794	24,223,556	2,047,412	32,687,762
Contributions and collections on pledges and estates	29,790	2,667,749	16,608,052	19,305,591
Appropriation of endowment assets for expenditure and change in donor designation	<u>(1,869,752)</u>	<u>(17,032,754)</u>	<u>336,534</u>	<u>(18,565,972)</u>
Endowment net assets -				
End of year	<u>\$ 58,164,404</u>	<u>\$ 96,119,146</u>	<u>\$ 384,366,269</u>	<u>\$ 538,649,819</u>

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Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2018 and 2017, consisted of:

	<b>2018</b>	<b>2017</b>
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	\$ 410,358,362	\$ 384,366,269
Portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	\$ 112,394,887	\$ 96,119,146

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$5,610,744 and \$8,670,000 at June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

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

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. For the fiscal years ended June 30, 2018 and 2017, the total return of the Endowment Pool was 9.15 percent and 8.64 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 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.

# Kansas State University Foundation

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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

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

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

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

The Foundation's policy regarding distributions on underwater funds will not allow distributions on funds more than 15 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 5: Asset Holdings

The Foundation has a general policy of investing assets to maximize rates of return, consistent with sound and safe business principles. The Foundation also holds certain assets for the benefit of Kansas State University which do not provide a market rate of return on funds invested. Some examples of these investments and other direct benefits provided to the University include:

**University Real Estate Fund** – Certain real estate holdings vital to the mission of the University were purchased and are held for current and potential University use.

**Smith Scholarship House** – The Foundation has provided the building rent-free in order to maintain the House in operation for the benefit of the students.

**Holiday Inn (formerly Ramada Inn) and Wildcat BP (formerly University Amoco)** – The hotel and service station located adjacent to the University were built on land acquired by the Foundation to meet the needs of public lodging and service facilities close to the University.

**Faculty and Accommodation Loans** – The Foundation provides faculty loans at favorable interest rates to University faculty and staff to enable them to conduct business travel pending reimbursement from the University. Noninterest-bearing accommodation loans are available to faculty and staff when their salary payment cannot be processed by the University by payday.

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

Total real estate held for investment for the benefit of Kansas State University at June 30, 2018 and 2017 was \$62,210,940 and \$48,419,882, respectively (see *Note 2*).

**Note 6: Pledges Receivable**

Pledges receivable consisted of the following at June 30, 2018 and 2017:

	<b>2018</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Due in less than one year	\$ 57,919	\$ 13,555,841	\$ 4,253,940	\$ 17,867,700
Due in one to five years	112,859	22,937,542	9,082,872	32,133,273
Due thereafter	7,500	2,457,750	130,000	2,595,250
	<u>178,278</u>	<u>38,951,133</u>	<u>13,466,812</u>	<u>52,596,223</u>
Less				
Allowance for uncollectible contributions	3,204	700,015	242,021	945,240
Unamortized discount	19,456	4,674,689	1,441,848	6,135,993
	<u>\$ 155,618</u>	<u>\$ 33,576,429</u>	<u>\$ 11,782,943</u>	<u>\$ 45,514,990</u>
	<b>2017</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Due in less than one year	\$ 37,000	\$ 16,690,807	\$ 2,290,641	\$ 19,018,448
Due in one to five years	96,250	33,974,268	3,994,595	38,065,113
Due thereafter	-	5,046,500	140,000	5,186,500
	<u>133,250</u>	<u>55,711,575</u>	<u>6,425,236</u>	<u>62,270,061</u>
Less				
Allowance for uncollectible contributions	1,926	2,448,665	136,711	2,587,302
Unamortized discount	12,325	6,234,451	597,989	6,844,765
	<u>\$ 118,999</u>	<u>\$ 47,028,459</u>	<u>\$ 5,690,536</u>	<u>\$ 52,837,994</u>

Discount rate used on pledges receivable was 5.00 percent and 4.25 percent at June 30, 2018 and 2017, respectively.

As of June 30, 2018, approximately 13 percent of pledges receivable were due from one donor. As of June 30, 2017, approximately 25 percent of pledges receivable were due from two donors.

See significant estimate discussion regarding the allowance for doubtful collections in *Note 17*.

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
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Approximately \$27,592,000 and \$25,954,000 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, 2018 and 2017, respectively.

**Note 7: Property and Equipment**

Property and equipment at June 30, 2018 and 2017, consisted of:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 13,752,563	\$ 13,574,365
Furniture and equipment	2,180,022	1,814,833
Land	415,996	415,996
Other	33,758	33,758
	<u>16,382,339</u>	<u>15,838,952</u>
Less accumulated depreciation and amortization	<u>(1,720,027)</u>	<u>(1,111,083)</u>
	<u>\$ 14,662,312</u>	<u>\$ 14,727,869</u>

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

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 3,809,010	\$ 3,737,295
Buildings and improvements	5,395,154	5,191,991
Other	2,472,943	2,423,876
	<u>11,677,107</u>	<u>11,353,162</u>
Less accumulated depreciation and amortization	<u>(3,957,587)</u>	<u>(3,402,527)</u>
	<u>\$ 7,719,520</u>	<u>\$ 7,950,635</u>

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
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**Note 8: Net Assets**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at June 30, 2018 and 2017, are available for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Departmental support/Excellence	\$ 194,588,006	\$ 207,136,124
Student scholarships and support	76,702,965	66,448,483
Property, plant and equipment	51,677,519	56,744,936
Professorships and faculty support	15,518,670	13,473,907
Research	11,350,391	10,505,209
	<u>\$ 349,837,551</u>	<u>\$ 354,308,659</u>

***Permanently Restricted Net Assets***

Permanently restricted net assets at June 30, 2018 and 2017, are restricted to support:

	<u>2018</u>	<u>2017</u>
Student scholarships and support	\$ 222,373,385	\$ 211,232,045
Departmental support	79,738,828	67,973,651
Professorships and faculty support	80,226,506	77,595,003
Research	19,053,528	18,774,002
Property, plant and equipment	12,406,685	6,004,871
	<u>\$ 413,798,932</u>	<u>\$ 381,579,572</u>



**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
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***Net Assets Released from Restrictions***

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

	<b>2018</b>	<b>2017</b>
Scholarships and other student awards	\$ 17,860,603	\$ 18,437,592
University support - Academic	13,714,925	12,985,281
University support - Administrative	44,168,665	39,364,200
University support - Capital improvements	16,238,785	13,216,576
Other support	283,275	200,883
	\$ 92,266,253	\$ 84,204,532

**Note 9: 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, 2018 and 2017, totaling \$5,031,829 and \$4,993,527, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 3.4 percent and 2.4 percent in 2018 and 2017, respectively.

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime or a specific time period). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the future interest of the Foundation is recorded in the consolidated statements of activities as temporarily restricted contributions or permanently restricted contributions as designated by the donor, in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the Foundation's consolidated statements of financial position. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate of 3.4 percent and 2.4 percent in 2018 and 2017, respectively, as well as applicable mortality tables, and amounted to \$14,486,239 and \$14,851,676 at June 30, 2018 and 2017, respectively. Total actuarial gains related to these agreements amounted to \$776,337 and \$54,755 during 2018 and 2017, respectively.

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
**June 30, 2018 and 2017**

**Note 10: Employee Benefit Plan**

The Foundation's Board of Directors has established the Kansas State University Foundation Defined Contribution Retirement Plan (the Plan). The Plan provides for a mandatory employer matching contribution of 10.0 percent for the years ended June 30, 2018 and 2017. Employees are fully vested when plan contributions are made. Employer contributions paid by the Foundation were \$924,553 and \$901,998 for the years ended June 30, 2018 and 2017, respectively.

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

**Note 11: Consolidation of Supporting Organization – KSUGCMRF**

The Kansas State University Golf Course Management and Research Foundation (KSUGCMRF) is a supporting organization of the Foundation formed to build, own and operate a golf course. This not-for-profit corporation was formed in 1997 based on a request from the University to provide a golf course to further the University's mission. The corporation was granted tax-exempt status by the Internal Revenue Service. Although consolidated for financial reporting purposes, KSUGCMRF is a separate corporation, and its assets and liabilities are separate from those of the Foundation. The Foundation is not liable for and has not guaranteed the debts or obligations of KSUGCMRF. A summary of financial information for KSUGCMRF at and for the years ended June 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Assets		
Cash	\$ 482,978	\$ 385,198
Real estate and other depreciable assets (net of depreciation)	7,719,520	7,950,635
Pledges receivable, net	1,217,732	1,036,888
Other assets	381,921	267,241
Total assets	<u>9,802,151</u>	<u>9,639,962</u>
Liabilities		
Accrued liabilities	312,087	267,278
Mortgages payable	703,216	1,214,814
Total net assets	<u>\$ 8,786,848</u>	<u>\$ 8,157,870</u>
Revenue, gains and other support	\$ 1,933,826	\$ 1,112,359
Expenses and support	<u>(1,304,848)</u>	<u>(1,182,237)</u>
Change in Net Assets	628,978	(69,878)
Net Assets, Beginning of Year	<u>8,157,870</u>	<u>8,227,748</u>
Net Assets, End of Year	<u>\$ 8,786,848</u>	<u>\$ 8,157,870</u>

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
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**Note 12: Consolidation of Supporting Organization – FEKSU**

The Foundation for Engineering at Kansas State University, Inc. (FEKSU) is a supporting organization formed for charitable and educational purposes exclusively to support the Kansas State University Foundation benefiting the College of Engineering at Kansas State University. This not-for-profit corporation was formed in 2009 based on a request from donors with the objective of providing resources to attract and retain faculty and students through scholarships and enhanced college resources. The corporation has applied for and received tax-exempt status with the Internal Revenue Service. A summary of financial information for FEKSU at June 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Assets		
Cash	\$ 6,769	\$ 11,219
Closely held stock (at fair value)	<u>96,257,699</u>	<u>110,583,749</u>
Total net assets	<u>\$ 96,264,468</u>	<u>\$ 110,594,968</u>
Sources		
Interest income	\$ 28	\$ 35
Net realized and unrealized gains (losses)	<u>(13,126,050)</u>	<u>4,423,350</u>
	<u>(13,126,022)</u>	<u>4,423,385</u>
Transfer to University for purpose and expenses	<u>(1,204,478)</u>	<u>(1,209,742)</u>
Change in Net Assets	(14,330,500)	3,213,643
Net Assets, Beginning of Year	<u>110,594,968</u>	<u>107,381,325</u>
Net Assets, End of Year	<u>\$ 96,264,468</u>	<u>\$ 110,594,968</u>

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
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**Note 13: Consolidation of Supporting Organization – KSUCREF**

The Kansas State University Charitable Real Estate Foundation (KSUCREF) is a supporting organization formed to hold and manage real estate properties held for investment. The corporation applied for and received tax-exempt status with the Internal Revenue Service. A summary of financial information for KSUCREF at and for the years ended June 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Assets		
Cash	\$ 531,651	\$ 561,809
Investments	29,276,333	28,141,326
Lease receivable	599,750	807,937
Lease income receivable	-	16,291
Assets held for sale	12,086,993	-
Note receivable	10,374,000	-
Other assets	102,899	945
	<hr/>	<hr/>
Total assets	52,971,626	29,528,308
Liabilities		
Accrued liabilities	1,427,606	1,449,867
Long-term debt	9,077,249	-
Line of credit	918,860	1,123,360
	<hr/>	<hr/>
Total net assets	<u>\$ 41,547,911</u>	<u>\$ 26,955,081</u>
Revenue, gains and other support	\$ 17,335,526	\$ 2,779,643
Expenses and support	<u>(2,742,696)</u>	<u>(937,705)</u>
Change in Net Assets	14,592,830	1,841,938
Net Assets, Beginning of Year	<hr/> 26,955,081	<hr/> 25,113,143
Net Assets, End of Year	<u><u>\$ 41,547,911</u></u>	<u><u>\$ 26,955,081</u></u>

**Kansas State University Foundation**  
**Notes to Consolidated Financial Statements**  
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**Note 14: 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 15*). A summary of financial information for 1880 Kimball at and for the years ended June 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Assets		
Cash	\$ 3,618,271	\$ -
Investments	13,550,686	2,200,000
Other assets	48,917	-
	<hr/>	<hr/>
Total assets	17,217,874	2,200,000
Liabilities		
Accrued liabilities	2,007,756	-
Long-term debt	14,211,390	-
	<hr/>	<hr/>
Total net assets	<u>\$ 998,728</u>	<u>\$ 2,200,000</u>
Revenue, gains and other support	\$ (1,122,864)	\$ 2,200,000
Expenses and support	(78,408)	-
	<hr/>	<hr/>
Change in Net Assets	(1,201,272)	2,200,000
Net Assets, Beginning of Year	<hr/>	<hr/>
	2,200,000	-
Net Assets, End of Year	<u>\$ 998,728</u>	<u>\$ 2,200,000</u>

**Note 15: New Market Tax Credit Financing**

During 2018, the Foundation and its newly formed subsidiary 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 United 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.

# Kansas State University Foundation

## Notes to Consolidated Financial Statements

### June 30, 2018 and 2017

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 is scheduled to be completed and placed in operations in October 2018.

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 16*). 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, 2018, the construction note had not been drawn on.

Upon completion of the construction project, the Foundation intends to enter 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.

**Kansas State University Foundation**  
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**Note 16: Long-term Debt**

	<b>2018</b>	<b>2017</b>
Kansas State Revenue Bonds (A)	\$ 14,579,913	\$ 15,824,374
Printing Services Note Payable, UMB Bank (B)	-	43,905
KSUGCMRF Notes Payable, Kansas State Bank (C)	703,216	1,214,814
Capital Equipment Leases, Various Financiers (D)	186,967	91,542
Lines of Credit, Various Financiers (E)	918,860	1,123,360
KSUCREF Note Payable, Intrust Bank (F)	9,096,742	-
1880 Kimball Notes Payable, Various Financiers (G)	14,650,000	-
Other Notes Payable, US Bank (H)	2,593,007	-
	<u>42,728,705</u>	<u>18,297,995</u>
Less unamortized debt issuance costs	<u>(738,239)</u>	<u>(393,927)</u>
	<u><u>\$ 41,990,466</u></u>	<u><u>\$ 17,904,068</u></u>

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 \$224,467 and \$239,432 at June 30, 2018 and 2017, 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. Unamortized debt issuance costs were \$50,668 and \$65,145 at June 30, 2018 and 2017, respectively.

**Kansas State University Foundation**  
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The 2014M bond agreement, among other provisions, contains a financial covenant, which includes that the Foundation maintain a liquidity ratio of 1.25 to 1.00 as defined in the bond agreement. The continuing covenant agreement of the bond agreement was amended as of June 30, 2017 to decrease the minimum liquidity ratio to 1.10 to 1.00. Management of the Foundation has provided this calculation to the bank certifying their compliance with this covenant as of June 30, 2018.

- (B) Due January 2018; payable \$6,330 monthly, including interest at 2.75 percent; secured by a warehouse/office building on Corporate Drive in Manhattan, Kansas. The loan was repaid and released by the bank in October 2017.
- (C) 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.

- (D) 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.
- (E) 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 \$918,860 and \$1,123,360 borrowed against the line at June 30, 2018 and 2017, 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 \$2,500,000 revolving bank line of credit expiring in October 2019. There were no borrowings against the line at June 30, 2018 and 2017. The line is collateralized by all uncollected pledges associated with the completion of the Berney Family Welcome Center. Interest rate is set at a fixed rate of 2.4 percent.



**Kansas State University Foundation**  
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(F) 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 15*).

(G) 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 15*). Unamortized debt issuance costs were \$458,104 and \$89,350 at June 30, 2018 and 2017, respectively.

(H) 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 \$5,000 at June 30, 2018.

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, 2018.

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. There were no borrowings against the loan as of June 30, 2018.

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Aggregate annual maturities of long-term debt at June 30, 2018, are:

2019	\$ 1,795,091
2020	2,199,914
2021	3,345,937
2022	5,638,548
2023	696,643
Thereafter	<u>28,314,333</u>
	<u>\$ 41,990,466</u>

Total interest expense on long-term debt amounted to \$1,025,484 and \$495,258 during 2018 and 2017, respectively.

**Note 17: 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 16 percent of all contributions were received from one donor in 2018.

***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, 2018 and 2017, the closely held stock by the Foundation for Engineering at Kansas State University, Inc. approximates 10 percent and 13 percent of total assets, respectively.

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***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 18: 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 \$438,000,000 and \$44,000,000 at June 30, 2018, 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 19: 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 \$1,599,750 and \$2,307,938 in lease receivables recorded in other assets and accrued investment income for the years ended June 30, 2018 and 2017, respectively.

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The Foundation has a loan policy for the University administration and colleges to assist in financing various projects. Loans may be issued in two pools; \$50,000 to \$200,000 for a maximum of three years or \$200,000 to \$1,500,000 for a maximum of five years. The interest rate for these loans is the comparable term constant maturity Treasury rate plus 2 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, 2018 and 2017, 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, 2018	Outstanding at June 30, 2017
College of Agriculture	Flour Mill	\$ 1,000,000	March 1, 2022	\$ 1,000,000	\$ 1,000,000
College of Agriculture	Stanley Stout Center	700,000	August 1, 2017	-	148,228
College of Technology	Salina Locker Room Project	270,000	June 11, 2019	273,047	269,902
Smith Scholarship House	Smith Scholarship House	201,000	April 1, 2025	139,891	158,991

**Note 20: Subsequent Events**

Subsequent events were evaluated through September 27, 2018, which is the date the consolidated financial statements were available to be issued.

In August 2018, the Foundation filed a notice to call certain debt instruments with the Kansas Development Finance Authority to redeem the Series 2014M revenue bonds that had an outstanding balance of \$6,205,500 at June 30, 2018. The redemption is expected to occur through new credit facilities to be entered into in 2018.

**Note 21: Accounting Standards Update**

The Financial Accounting Standard Board recently issued several Accounting Standards Updates (ASUs) related to the accounting for revenue recognition, leases and the not-for-profit reporting model. The impact of the standards are being evaluated by the Foundation. The standards have various effective dates with the earliest effective date beginning for annual periods beginning after December 15, 2017, including the new standards surrounding revenue recognition and the not-for-profit reporting model, which have been adopted by the Foundation as of July 1, 2018.