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FORT HAYS STATE UNIVERSITY

Forward thinking. World ready.



ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR 2017
ENDED JUNE 30, 2017



FORT HAYS STATE UNIVERSITY

Forward thinking. World ready.

FORT HAYS STATE UNIVERSITY ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2017

DR. ANDY TOMPKINS, INTERIM PRESIDENT

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FORT HAYS STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2017

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial performance of Fort Hays State University (the "University") based on currently known facts, decisions and conditions and is designed to assist readers in understanding the accompanying financial statements. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, with the exception of GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units. This discussion – along with the financial statements and related footnote disclosures – has been prepared by and is the responsibility of management.

USING THIS ANNUAL REPORT

This report consists of the three financial statements, the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement 35, Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities, as amended by GASB Statements 37 and 38. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole. The notes to the financial statements present additional information to further define the financial statements.

STATEMENT OF NET POSITION

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows and net position of the University at a point in time (at the end of the fiscal year). Its purpose is to present a financial snapshot of the University. The Statement of Net Position includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Under the accrual basis of accounting all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Within the Statement of Net Position, assets and liabilities are further classified as current or non-current. The current classification distinguishes those assets that are highly liquid and available for immediate and unrestricted use by the University, and those liabilities likely to be settled in the next twelve months.

Net Position is divided into three categories:

1. **Invested in capital assets, net of debt**, indicates the university's equity in property, plant, and equipment owned by the University.
2. **Restricted Net Position** is further divided into two subcategories, non-expendable and expendable. The corpus of non-expendable restricted resources is only available for investment purposes. Expendable restricted net position resources are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities who have placed time or purpose restrictions on the use of the assets.
3. **Unrestricted Net Position** is available to the University for any lawful purpose of the institution.

Total Assets at June 30, 2017, were \$212.3 million, an increase of \$6 million or 3%. Capital assets, net of depreciation, comprised 73.6 %, or \$156.2 million of the \$212.3 million in total assets.

Total Liabilities were \$64.7 million at June 30, 2017, a decrease of \$2.2 million or a 3.3% decrease compared to \$66.9 million at June 30, 2016. This was partially due to a decrease of \$1.9 million in Pension Liability. Long-term liabilities comprised 70.1%, or \$45.3 million of the total liabilities.

Total Net Position at June 30, 2017, was \$147.6 million, a \$7.2million increase over the prior year, or a 5.1% increase in Net Position.

FORT HAYS STATE UNIVERSITY

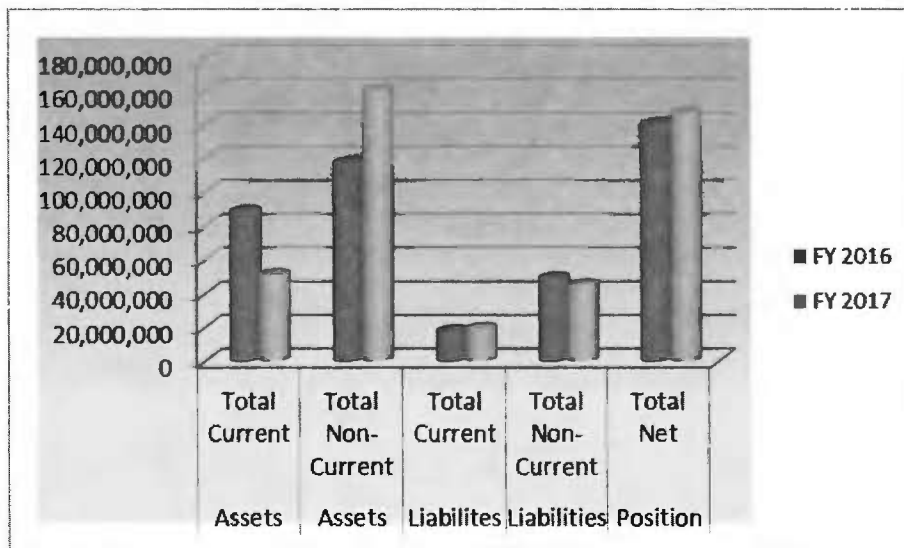
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2017

The breakout of Net Position is shown below:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Capital Assets, net of related debt.....	\$123,711,014	\$62,586,362
Restricted Net Position.....	14,998,280	49,061,196
Unrestricted Net Position	<u>8,844,446</u>	<u>28,717,198</u>
Total Net Position.....	<u>\$147,553,740</u>	<u>\$140,364,756</u>

The composition of current and non-current assets and liabilities and net position is displayed below for both 2017 and 2016 fiscal year-ends.



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents the total revenues earned and expenses incurred by the University for operating, non-operating and other related activities during a period of time. Its purpose is to assess the University's operating results.

Revenues

Operating revenues at the University as of June 30, 2017, increased by 1.1% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student fee revenues, after scholarship allowances, were \$56.9 million in 2017, compared to \$52.8 million in 2016. This increase is in part a result of a 6.0% tuition increase approved by the Kansas Board of Regents for fiscal year 2017. The goal of the tuition increase, which was the result of collaboration between University administration & University students, was to provide additional funds to the University to improve or enhance student education and services. Reasonable tuition charges and a continued effort to expand our Virtual College Program on the national and international level have resulted in increased enrollments in those programs.

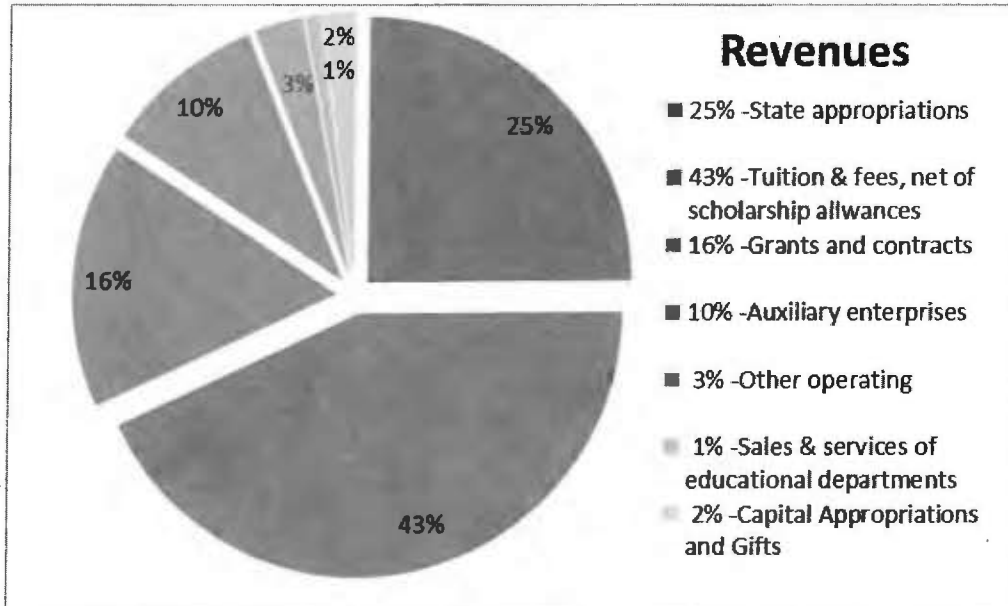
Total non-operating revenues increased by 6.5%, when comparing FY2017 \$46.5 million to FY2016 \$43.6 million. State appropriations increased 2.3% when comparing \$32.8 million in FY2017 to \$32.1 million in FY2016. Federal grants, specifically Pell Grants, increased .4% to \$14.1 million from \$14.0 million in FY2016.

FORT HAYS STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2017

In summary, total revenues increased by \$1.6 million, from \$130.4 million to \$132.0 million. The composition of FY2017 revenues is displayed in the following graph:

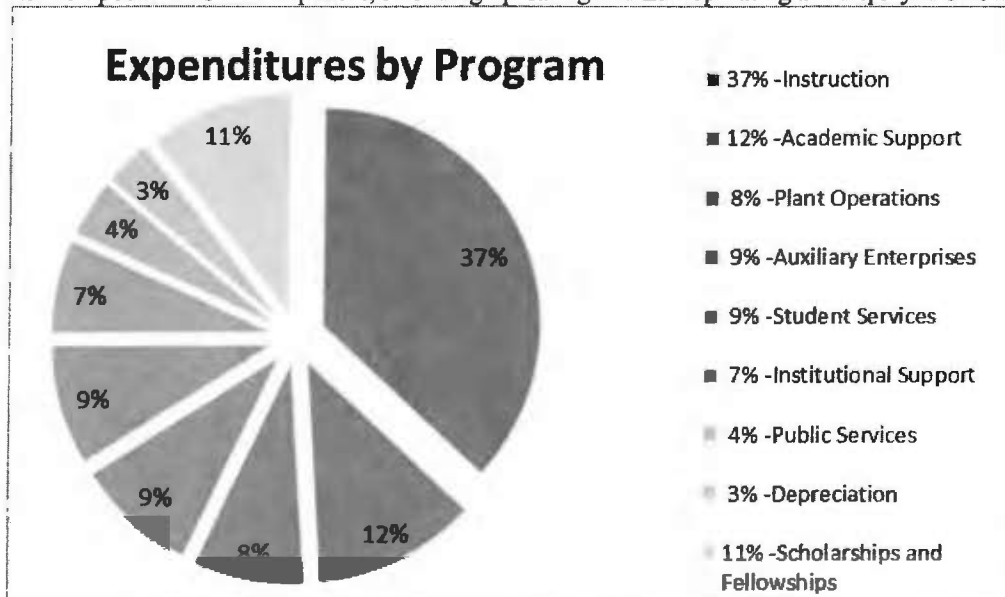


Expenses

Operating expenses were \$123.8 million for the 2017 fiscal year compared to \$116.9 million for the 2016 fiscal year. Instruction expenses increased \$1.4 million; Student Services increased \$.5 million; Institutional Support increased \$.3 million; Public Service increased \$.7 million.

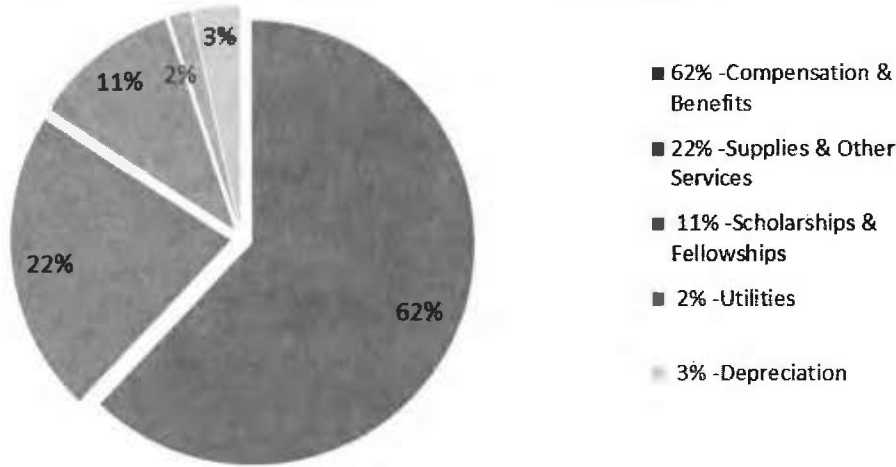
Non-operating expenses are comprised of the investment of bond reserve funds, bond interest expense, the student loan program, and other non capitalized expenditures.

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



FORT HAYS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017

Expenditures by Natural Classification



Foundation Expenses Paid On Behalf of University

The Fort Hays State University Foundation (FHSUF), a separate not-for-profit organization whose primary mission is to raise funds for the University, provides direct and indirect support to the University that is not entirely reflected in the University's Statement of Revenues, Expenses and Changes in Net Assets. Expense items paid on behalf of the University by FHSUF include expenses such as equipment, miscellaneous office expenses and travel. Total University support provided by FHSUF equaled approximately \$521,862 and \$265,311 in 2017 and 2016, respectively.

Net Position

Net position for the current year increased \$7.2 million. This increase is primarily a result of an increase in capital assets, net of depreciation and an increase in tuition and fees mainly due to an increase in Virtual College enrollment.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents cash receipts and payments of the University during a period of time. Its purpose is to assess the University's ability to generate future net cash flows and meet its obligations as they come due. Cash flows for the fiscal year-ends 2017 and 2016 are displayed below:

	June 30, 2016	June 30, 2017
Net cash provided (used) by:		
Operating activities	\$(29,794,052)	\$(37,737,194)
Non-capital financing activities	46,721,973	47,715,360
Capital and related financing activities	9,288,893	(46,426,845)
Investing activities	0	0
Net increase (decrease) in cash	26,216,814	(36,448,679)
Beginning cash and cash equivalent balances	54,638,773	80,855,587
Ending cash and cash equivalent balances	\$ 80,855,587	\$ 44,406,908

FORT HAYS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2017

Net cash provided/used by operating activities includes tuition and fees, grant and contract revenues, auxiliary enterprise revenues, sales of educational activities, and payments to employees and suppliers. Cash flows from operating activities will always be negative since GASB requires state appropriations to be reported as cash flows from non-capital financing activities. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show all uses of cash and cash equivalents to purchase investments, and all increases in cash and cash equivalents as a result of selling investments or earning income on cash and investments.

CAPITAL ASSETS

The University continued to invest in capital assets during the 2017 fiscal year. Detailed financial information regarding capital asset additions, retirements & depreciation is available in Note 6 to the financial statements. The following is a brief summary of major capital projects currently in process:

The following major construction continued during FY2017: \$35.7 million for the Wiest Hall Replacement and Themed Housing Projects, \$13.5 million for the Applied Technology Building, \$4.09 million for the Hansen Scholarship Hall, and \$3.1 million for the Track and Field Facility.

DEBT ADMINISTRATION

At June 30, 2017, the University had \$32.4 million in debt outstanding.

Debt in the amount of \$4,887,055 was incurred during the 2005 fiscal year to finance the Energy Improvement Conservation Project. This project was part of a state wide energy endeavor to reduce energy and related costs for the Regent's system. Anticipated energy savings are expected to pay the semi-annual debt payments. The debt is setup on a 16.5 year payout terminating October 1, 2021.

Debt in the amount of \$31,115,000 was incurred during the 2016 fiscal year to finance Wiest Hall Replacement and Themed Housing Project in the amount of \$26.8 million; refunding of the Memorial Union Renovation Project in the amount of \$4.1 million; and the refunding of the Lewis Field Stadium renovation in the amount of \$255,000.

Moody's Ratings Services has assigned the Bonds an underlying rating of "A1 with a stable outlook". More detailed information about the University's long-term liabilities is available in Notes 8 and 9 to the financial statements.

ECONOMIC OUTLOOK

The State of Kansas provided approximately 25% of the total resources for the University during fiscal year 2017. Appropriations for fiscal year 2017 were set at \$32.8 million. State of Kansas resources are expected to continue to decline due to changes in income tax policy. The University's administration has developed a four step strategy of reducing operating costs by implementing efficiencies, making cuts in the budgets of offices and departments, generating new revenue through enrollment growth, and instituting marginal increases in tuition.

The University economic outlook is strong. Enrollment for the academic 2017-2018 year is expected to increase due to our continued efforts to maintain affordable tuition rates which continue to be the lowest in the Kansas Regent's system. Continued regional and international recruitment will show increases in headcount in our virtual college and on campus during the next several years.

FORT HAYS STATE UNIVERSITY
STATEMENT OF NET POSITION
as of June 30, 2017 and 2016

	University Funds		Component Units	
	2017	2016	2017	2016
ASSETS				
Current assets				
Cash and cash equivalents	\$ 40,764,150	\$ 76,306,429	\$ 320,736	\$ 373,928
Restricted cash and cash equivalents	3,642,758	4,549,158	-	-
Investments	237,880	256,903	-	-
Accounts receivable, net	3,996,998	4,745,474	24,620	12,773
Loans to students, net - current portion	904,048	960,134	-	-
Inventories	132,578	105,786	9,111	9,638
Prepaid expenses	1,738,113	1,703,991	3,616	2,197
Total current assets	<u>51,416,525</u>	<u>88,627,875</u>	<u>358,083</u>	<u>398,536</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	-	4,698,675	3,295,340
Investments, bond reserve	-	-	266,517	233,657
Loans to students, net	4,776,766	4,874,847	-	-
Capital assets, net	156,148,975	112,760,560	990,052	1,006,762
Total noncurrent assets	<u>160,925,741</u>	<u>117,635,407</u>	<u>5,955,244</u>	<u>4,535,759</u>
Total Assets	<u>\$ 212,342,266</u>	<u>\$ 206,263,282</u>	<u>\$ 6,313,327</u>	<u>\$ 4,934,295</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension contributions	2,152,953	2,062,661	-	-
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	\$ 10,984,047	\$ 10,836,654	\$ 92,884	\$ 102,502
Deferred revenue	4,212,375	3,492,875	103,044	74,347
Accrued compensated absences - current portion	2,134,345	2,132,198	-	-
Capital leases payable - current portion	365,886	342,862	-	-
Revenue bonds payable - current portion	1,280,000	520,000	-	-
Deposits held in custody for others	301,790	356,333	-	-
Unamortized bond premium/discounts, current portion	61,573	62,751	-	-
Due to Other Funds	-	-	-	-
Total current liabilities	<u>19,340,016</u>	<u>17,743,673</u>	<u>195,928</u>	<u>176,849</u>
Noncurrent liabilities				
Accrued compensated absences	282,213	441,518	-	-
Capital leases payable	1,477,073	1,842,959	-	-
Other postemployment healthcare benefits	-	63,380	-	-
Revenue bonds payable	29,315,000	30,595,000	-	-
Unamortized bond premium/discounts	713,123	774,696	-	-
Pension liability	13,528,228	15,423,301	-	-
Total noncurrent liabilities	<u>45,315,637</u>	<u>49,140,854</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>\$ 64,655,653</u>	<u>\$ 66,884,527</u>	<u>\$ 195,928</u>	<u>\$ 176,849</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred pension inflows	2,285,826	1,076,653	-	-
NET POSITION				
Net investment in capital assets	\$ 123,711,014	\$ 62,586,362	\$ 990,052	\$ 1,006,762
Restricted for:				
Expendable:				
Loans	6,632,074	6,658,682	-	-
Debt service	2,756,159	862,862	-	-
Capital projects	5,610,047	41,539,652	-	-
Other Purposes	-	-	4,698,675	3,295,340
Unrestricted	<u>8,844,446</u>	<u>28,717,198</u>	<u>428,672</u>	<u>455,344</u>
Total Net position	<u>\$ 147,553,740</u>	<u>\$ 140,364,756</u>	<u>\$ 6,117,399</u>	<u>\$ 4,757,446</u>

FORT HAYS STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
for the Years Ended June 30, 2017 and 2016

	<u>University Funds</u>		<u>Component Units</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<u>OPERATING REVENUES</u>				
Tuition and fees (net of scholarship allowances of \$9,149,037 and \$8,442,228 in 2017 and 2016 respectively)	\$ 56,961,207	\$ 52,822,473	\$ -	\$ -
Federal grants and contracts	3,951,738	2,439,649	-	-
State and local grants and contracts	3,313,475	4,107,565	-	-
Sales and services of educational departments	1,271,523	2,967,922	-	-
Auxiliary enterprises:				
Residential Life	9,765,491	9,481,471	-	-
Athletics	-	-	4,332,039	5,886,374
Parking	280,472	126,303	-	-
Student Union	1,987,352	2,003,503	-	-
University Health Services	813,527	847,955	-	-
Interest earned on loans to students	108,043	109,077	-	-
Other operating revenues	3,825,209	6,471,562	204,254	197,567
Total operating revenues	\$ 82,278,037	\$ 81,377,480	\$ 4,536,293	\$ 6,083,941
<u>OPERATING EXPENSES</u>				
Educational and General				
Instruction	\$ 44,879,391	\$ 43,513,898	\$ -	\$ -
Research	730,880	723,935	-	-
Public service	5,144,608	4,413,799	-	-
Academic support	14,996,182	15,825,203	-	-
Student services	11,009,151	10,411,317	-	-
Institutional support	8,491,936	8,220,610	-	-
Operations and maintenance of plant	7,487,308	7,339,727	-	-
Depreciation	4,305,524	4,864,186	135,650	128,260
Scholarships and fellowships	13,075,556	12,177,433	-	-
Auxiliary enterprises:				
Residential Life	8,868,913	7,114,979	-	-
Athletics	-	-	2,864,080	2,711,058
Parking	103,132	65,664	-	-
Student Union	1,256,048	1,305,729	-	-
University Health Services	895,067	852,376	-	-
Other operating expenses	2,557,769	55,916	176,610	184,587
Total operating expenses	\$ 123,801,465	\$ 116,884,772	\$ 3,176,340	\$ 3,023,905
Operating Income (Loss)	(41,523,428)	(35,507,292)	1,359,953	3,060,036
<u>NON-OPERATING REVENUES (EXPENSES)</u>				
State appropriations	\$ 32,822,540	\$ 32,086,541	\$ -	\$ -
Federal grants and contracts	14,069,168	14,013,788	-	-
Gifts	521,862	265,311	-	-
Investment income	-	-	-	-
Other non-operating revenue (expenses)	107,649	(2,025,577)	-	-
Interest expense	(1,043,755)	(703,097)	-	-
Net nonoperating revenues (expenses)	\$ 46,477,464	\$ 43,636,966	\$ -	\$ -
Income before other revenues, expenses, gains, or losses	\$ 4,954,036	\$ 8,129,674	\$ 1,359,953	\$ 3,060,036
Capital appropriations	2,234,948	2,654,978	-	-
Increase (Decrease) In Net Position	\$ 7,188,984	\$ 10,784,652	\$ 1,359,953	\$ 3,060,036
<u>NET POSITION</u>				
Net Position - beginning of year	140,364,756	129,580,104	4,757,446	1,697,410
Revisions to beginning net position	-	-	-	-
Net Position - beginning of year (as adjusted)	140,364,756	129,580,104	4,757,446	1,697,410
Net Position - end of year	\$ 147,553,740	\$ 140,364,756	\$ 6,117,399	\$ 4,757,446

See accompanying notes to financial statements

FORT HAYS STATE UNIVERSITY
STATEMENT OF CASH FLOWS
for the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Tuition and fees	\$ 56,961,207	\$ 52,822,473
Sales and services of educational activities	1,271,523	2,967,922
Auxiliary enterprises:		
Residential Life	9,765,491	9,481,471
Parking	280,472	126,303
Student union	1,987,352	2,003,503
University health services	813,527	847,955
Grants and contracts	7,265,213	6,547,214
Payments to Suppliers	(27,293,035)	(26,719,315)
Payments to utilities	(1,978,379)	(1,735,865)
Compensation and benefits	(76,861,072)	(70,836,128)
Payments for scholarships and fellowships	(13,363,455)	(12,729,278)
Loans issued to students and employees	(845,831)	(1,033,956)
Collection of loans to students and employees	904,046	960,134
Other receipts (payments)	3,355,747	7,503,515
Net cash provided (used) by operating activities	<u>\$ (37,737,194)</u>	<u>\$ (29,794,052)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
State appropriations	\$ 32,822,540	\$ 32,086,541
Other Federal Grants and Contracts	14,069,168	14,013,788
Gifts	521,862	265,311
Deposits held in custody for others	301,790	356,333
Federal family education loan receipts	51,100,776	51,018,830
Federal family education loan disbursements	(51,100,776)	(51,018,830)
Net cash provided by noncapital financing activities	<u>\$ 47,715,360</u>	<u>\$ 46,721,973</u>
<u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</u>		
Capital appropriations	\$ 2,234,948	\$ 2,654,978
Purchases of capital assets	(47,693,935)	(15,816,927)
Proceeds from issue of bonds	-	31,115,000
Principal paid on capital debt and leases	(862,862)	(5,865,924)
Interest paid on capital debt and leases	(1,155,325)	(322,724)
Other	1,050,329	(2,475,510)
Net cash used by capital financing activities	<u>\$ (46,426,845)</u>	<u>\$ 9,288,893</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sales and maturities of investments	\$ -	\$ -
Investment Income	-	-
Purchase of investments	-	-
Net cash provided by investing activities	<u>\$ -</u>	<u>\$ -</u>
Net Increase (decrease) in cash	(36,448,679)	26,216,814
Cash - beginning of the year	80,855,587	54,638,773
Cash - end of year	<u>\$ 44,406,908</u>	<u>\$ 80,855,587</u>
<u>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>		
Operating income (loss)	\$ (41,523,428)	\$ (35,507,292)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	4,305,524	4,864,186
Changes in assets and liabilities:		
Accounts receivables, net	748,476	(1,197,190)
Loans to students, net	154,168	49,198
Inventories	(26,792)	43,714
Prepaid expenses	(34,130)	(61,584)
Accounts payable and accrued liabilities	147,393	1,917,402
Other Postemployment Healthcare Benefits	(63,380)	(3,294,620)
Deferred revenue	719,500	318,274
Pension Liability	(1,895,073)	2,213,502
Unamortized bond premiums	(57,751)	837,447
Due to Other Funds/Deposits held for others	(54,543)	(109,149)
Accrued compensated absences	(157,158)	132,060
Net cash provided (used) by operating activities:	<u>\$ (37,737,194)</u>	<u>\$ (29,794,052)</u>

See accompanying notes to financial statements

FORT HAYS STATE UNIVERSITY FOUNDATION
Consolidated Statements of Financial Position
June 30, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$ 103,679	\$ 49,972
Certificates and money market funds	5,672,868	4,695,410
Securities and limited partnerships	77,273,778	58,680,884
Student notes receivable and matching fund programs, net of allowance for doubtful accounts	159,742	157,845
Art and Coin Collections	170,301	165,501
Rental Investments	587,893	610,504
Cash surrender value of life insurance	354,933	349,170
Oil and working interest, less accumulated depletion	236,809	308,542
Land, buildings, equipment and oil royalties, less accumulated depreciation, depletion and reserve for impairment	7,579,204	4,719,369
Other	<u>17,705</u>	<u>16,299</u>
Total Assets	<u>\$ 92,156,912</u>	<u>\$ 69,753,496</u>

LIABILITIES AND NET ASSETS

Liabilities

Due to agency funds and other	\$ 46,380	\$ 40,931
Annuity contracts payable	<u>671,117</u>	<u>690,116</u>
Total Liabilities	<u>\$ 717,497</u>	<u>\$ 731,047</u>

Net Assets

Unrestricted	\$ 11,044,920	\$ 8,435,952
Temporarily restricted	31,351,174	24,470,558
Permanently restricted	<u>49,043,321</u>	<u>36,115,939</u>
Total Net Assets	<u>\$ 91,439,415</u>	<u>\$ 69,022,449</u>
Total Liabilities and Net assets	<u>\$ 92,156,912</u>	<u>\$ 69,753,496</u>

FORT HAYS STATE UNIVERSITY FOUNDATION
Consolidated Statements of Activities
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues, Gains and (losses)		
Fund Raising		
Estate and planned gifts	\$ 10,057,010	\$ 3,762,591
Major Gifts	7,404,825	2,958,735
Other	<u>1,763,753</u>	<u>1,649,796</u>
Total Fund Raising	\$ 19,225,588	\$ 8,371,122
Investment return and Gain on sale of real estate	\$ 9,220,239	\$ (2,513,398)
Oil and gas	155,661	151,317
Farm rent	14,646	16,243
Management fees	165,089	147,274
Other revenues, net of bad debts	<u>1,324,173</u>	<u>301,322</u>
Total Revenues and Net Gains (Losses)	\$ 30,105,396	\$ 6,473,880
Net assets released from restrictions	<u>-</u>	<u>-</u>
Total Revenues, Gains (Losses) and Other Support	\$ 30,105,396	\$ 6,473,880
Expenses and Losses		
Program and General		
Scholarships, grants and awards	\$ 2,002,228	\$ 1,887,322
Fund and farm expenses	3,505,634	4,417,934
Management fees	165,742	137,668
Foundation operating expenses	1,850,301	1,720,159
Oil expenses	107,444	102,269
Power of one campaign expenses	-	-
The Journey campaign expenses	61,210	61,370
Campus call expenses	<u>38,202</u>	<u>39,269</u>
Total Program and General Expenses	\$ 7,730,761	\$ 8,365,991
Excess of Revenues Over (Under) Expenses	\$ 22,374,635	\$ (1,892,111)
Other Changes		
Change in value and actuarial gain		
(loss) on annuity contracts	\$ 45,331	\$ (45,531)
Transfers (to) from agency funds	(3,000)	911
Interfund transfers	-	-
Adjustment due to ASC 958-320-45	<u>-</u>	<u>-</u>
Change in Net Assets	\$ 22,416,966	\$ (1,936,731)
Net Assets at Beginning of Year	\$ 69,022,449	\$ 70,959,180
Net Assets at End of Year	<u>\$ 91,439,415</u>	<u>\$ 69,022,449</u>

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Organization. Fort Hays State University (University) is a regional university principally serving western Kansas. The University's primary emphasis is undergraduate liberal arts education, which includes the humanities, the fine arts, the social/behavioral sciences and the natural/physical sciences. The University, located in Hays, Kansas, has an on campus enrollment of 4,648, an enrollment of 3,570 in our partner universities in China, and an enrollment in our Virtual College of 6,882, for a total enrollment of 15,100. The University is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools, is governed by the Kansas Board of Regents and is an agency of the State of Kansas. As an agency of the State of Kansas, the University is included in the financial report of the State of Kansas.

Financial Reporting Entity. As required by accounting principles generally accepted in the United States of America, these financial statements present the financial position and financial activities of the University and its component units: the Fort Hays State University Alumni Association, the Fort Hays State University Athletic Association and the Sternberg Museum Foundation.

Financial activities and balances of component units have been discreetly presented on the University's financial statements. This discreet display presentation is in conformity with GASB Statement No 35 Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities and with GASB Statement 39 Determining Whether Certain Organizations are Component Units, as amended by GASB Statement No 61, The Financial Reporting Entity.

The financial activity and balances of the Fort Hays State University Foundation (FHSUF) are not included in the financial statements of the University as the Foundation is a legally separate entity and the University does not appoint a voting majority of the Foundation's governing body. The FHSUF financial statements are included on the facing pages to the University's financial statements.

In preparing the financial statements, all significant transactions and balances between the University and the component units have been eliminated to avoid overstatement of 1) revenues and expenses on the Statement of Revenues, Expenses and Changes in Net Position, and 2) balances on the Statement of Net Position.

Basis of Accounting. For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Cash Equivalents. For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments. The University accounts for its investments at fair value in accordance with GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Position.

Accounts Receivable. Accounts receivable consists of tuition and fee charges and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories. Inventories are carried at cost.

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017

Loans to Students. Loans to students consist of loans from the Federal Perkins Loan Fund. Loans receivable are allocated into current and noncurrent based upon sampled and historical balances collectible in less than one year and collectible in more than one year. (See Note 4)

Capital Assets. Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost \$5,000 or more, and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if the related project cost exceeds \$100,000. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line half-year convention method over the estimated useful lives of the assets. Useful life is 40 years for buildings, 25 years for infrastructure and land improvements, 8 years for equipment, 5 years for vehicles and 3 years for information technology equipment. Costs incurred during construction of long lived assets are recorded as construction-in-progress and are not depreciated until placed in service.

Unearned Revenues. Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include summer school tuition not earned during the current year and amounts received from grant and contract sponsors that have not yet been earned.

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

Deposits Held In Custody for Others. Deposits held in custody for others consists primarily of student organizations' monies administered by the University.

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of revenue bonds payable, capital lease obligations associated with energy savings projects on University buildings with contractual maturities greater than one year, and estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

Pensions. In accordance with provisions of GASB 68, Accounting and Financial Reporting for Pensions, the University has reported its proportional share of the entire Kansas Public Employees Retirement System (KPERs) pension liability. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of KPERs and additions to deductions from KPERs' fiduciary net position have been determined on the same basis as they are reported by KPERs. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are at fair value.

Deferred Inflows/Outflows. Deferred outflows and deferred inflows result from the consumption or acquisition of net assets in one period that are applicable to future periods. These items are reported separately from assets and liabilities. Deferred outflows and deferred inflows for June 30, 2017, refer to activity pertaining to the recognition of the KPERs Pension liability per GASB 68.

Net Position. The University's net position is classified as follows:

Net investment in capital assets: This represents the University's total investment in capital assets, net of outstanding debt obligations used to acquire those capital assets. To the extent debt has been incurred but not yet expended for capital assets such amounts are not included as a component of net investment in capital assets.

Restricted net position – expendable: Restricted expendable net position include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net position – nonexpendable: Restricted nonexpendable net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017

Unrestricted net position: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the University to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

Tax Status. As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code; however, income generated from activities unrelated to the University's exempt purpose is subject to income taxes under Internal Revenue Code Section 511(a)(2)(B). The University complies with this requirement by annually filing form 990-T through the Kansas Board of Regents Office.

Classification of Revenues. The University has classified its revenue as either operating or non-operating revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as 1) student tuition and fees, net of scholarship discounts and allowances, 2) sales and services of educational activities and auxiliary enterprises, 3) most federal, state and local grants and contracts, and 4) interest on institutional student loans.

Non-operating Revenues: Non-operating revenues include activities that have characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances. Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Summer Session. Revenues and expenses for the summer session are reported within the fiscal year in which the summer session is predominately conducted. Accordingly, revenues and expenses for the 2017 summer session are reported in the Statement of Revenues, Expenses and Changes in Net Position as revenues and expenses for FY 2018. Summer session revenues received prior to June 30, 2017, are reported as unearned revenues in the Statement of Net Position. Expenses for the summer session paid prior to June 30, 2017, are reported as prepaid expenses. Kansas Board of Regents officials determined this methodology and believe the departure from generally accepted accounting principles will not have a material effect on the University's financial position.

NOTE 2 –Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents: The carrying amount of the University's deposits with the State Treasurer and other financial institutions at June 30, 2017 and 2016 was \$44,406,908 and \$80,855,587, respectively. The University's deposits with the State Treasurer are pooled with the funds of other state agencies and then, in accordance with statutory limitations, placed in short term investments with the exception of the bond funds. All bond proceeds are invested in conjunction with specifications stated in the bond resolutions.

State law requires the University to deposit the majority of its cash balances with the State Treasurer, who holds and invests the funds. These investments are managed by the Pooled Money Investment Board (PMIB), which maintains a published investment policy. The exceptions to this are any funds maintained in the University's imprest fund, organizational safe keeping, and any funds held by external entities on behalf of the University.

Investments: Fort Hays State University's total investments are \$237,880 is held in certificates of deposit for the student activity accounts.

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 3 - Accounts Receivable

Accounts receivable, net of estimated uncollectible amounts, consisted of the following at June 30, 2017:

Tuition, Fees & Other	\$ 1,490,855
Auxiliary	108,285
Grants & Contracts	734,638
Appropriated Funds	<u>1,663,220</u>
	<u>\$ 3,996,998</u>

NOTE 4 - Loans to Students

Student loans made through the Federal Perkins Loan Program comprise substantially all of the loans to students at June 30, 2017. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2017, the allowance for uncollectible loans was estimated to be \$298,990.

NOTE 5 –Capital Assets

	Beginning Balance	Additions	Retirements	Ending Balance
<u>Non-depreciable capital assets</u>				
Land	304,456	-	-	304,456
Construction in progress	10,607,130	35,495,478	4,406,643	41,695,965
Software	1,838,125	2,963,298	-	4,801,423
Total non-depreciable capital assets	12,749,711	38,458,776	4,406,643	46,801,844
<u>Depreciable capital assets</u>				
Infrastructure	20,493,459	4,990,457	-	25,483,916
Buildings	135,010,928	7,799,109	378,058	142,431,979
Equipment	21,750,664	1,559,466	432,196	22,877,934
Vehicles	1,471,913	171,938	68,912	1,574,939
Total depreciable capital assets	178,726,964	14,520,970	879,166	192,368,769
Total capital asset cost	191,476,675	52,979,747	5,285,809	239,170,613
<u>Accumulated depreciation</u>				
Infrastructure	5,529,221	854,874	-	6,384,095
Buildings	62,590,406	2,878,190	327,484	65,141,112
Equipment	9,590,242	1,208,248	409,202	10,389,288
Vehicles	1,006,245	169,809	68,912	1,107,142
Total accumulated depreciation	78,716,114	5,111,122	805,598	83,021,638
Capital Assets Net	112,760,561	47,868,625	4,480,211	156,148,975

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 6 - Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Leases Payable	\$ 2,185,821	-	342,862	\$ 1,842,959	\$ 365,886
Revenue bonds payable	31,115,000	-	520,000	30,595,000	1,280,000
Post Employment Benefits	63,380	-	63,380	-	-
Compensated absences	<u>2,573,716</u>	<u>-</u>	<u>157,158</u>	<u>2,416,558</u>	<u>2,134,345</u>
Total long-term liabilities	<u>\$ 35,937,917</u>	<u>-</u>	<u>1,083,400</u>	<u>\$ 34,854,517</u>	<u>\$ 3,780,231</u>

NOTE 7 - Revenue Bonds Outstanding

Revenue bonds payable consist of the following:

	Principal Outstanding at 6/30/17
Kansas Development Finance Authority Lewis Field Stadium Renovation Revenue Bonds Refunded Series 2016B. \$255,000. Issued April 1, 2016, with a final maturity date of April 1, 2018. Interest ranging from 2.00% to 4.0%, payable semi-annually.	\$ 130,000
Kansas Development Finance Authority Wiest Hall Replacement Bonds Series 2016B \$26,750,000 issued April 1, 2016 with a final maturity date of 04/01/2041. Interest ranging from 3.0% to 4.0%, payable semi annually	\$ 26,765,000
Kansas Development Finance Authority Memorial Union Renovation Revenue Bonds, Refunded Series 2016B. \$4,095,000. Issued April 1, 2016, with a final maturity date of 04/01/2025. Interest ranging from 2.0% to 4.0%, payable semi-annually.	\$ 3,700,000

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 8 - Revenue Bonds Maturity Schedule:

Maturities of principal and interest requirements on revenue bonds payable are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	520,000	1,069,351	1,589,351
2018	1,280,000	1,038,555	2,318,555
2019	1,195,000	987,355	2,182,355
2020	1,230,000	951,505	2,181,505
2021-2025	6,865,000	4,022,075	10,887,075
2026-2030	5,225,000	2,974,025	8,199,025
2031-2035	6,065,000	2,122,844	8,187,844
2036-2041	<u>8,735,000</u>	<u>1,100,211</u>	<u>9,835,211</u>
	<u>31,115,000</u>	<u>14,265,921</u>	<u>45,380,921</u>

NOTE 9 – Capital Leases Payable

Fort Hays State University is obligated for the purchase of certain equipment funded through the Master Lease and Facilities Conservation Improvement Program in the amount of \$2,039,231 as of June 30, 2017. Payments to liquidate these obligations are scheduled as follows:

Fiscal Year 2018 Total	437,604	Fiscal Year 2021 Total	465,008
Fiscal Year 2019 Total	446,553	Fiscal Year 2022 Total	234,380
Fiscal Year 2020 Total	455,686		

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 10 – Pension and Retirement Plans

University employees participate in two separate retirement programs. University Support Staff (USS) employees participate in the "Kansas Public Employees Retirement System" (KPERS). This defined benefit program is funded through contributions by the University and the individual employees. The University contributed \$973,230 during fiscal year 2017 and individual employees contributed \$518,613. Unclassified and some USS employees participate in the "Board of Regents Retirement Program". This defined contribution program is funded through contributions by the University and the individual employees. The University contributed \$3,300,348 during fiscal year 2017 and individual employees contributed \$2,135,519.

Pensions. For the year ended June 30, 2015, Fort Hays State University implemented the provisions of GASB 68, Accounting and Financial Reporting for Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kansas Public Employees Retirement System (KPERS) and additions to/ deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description: Some of the Fort Hays State University support staff participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, ET. Seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Benefits provided: KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Benefits are established by statute and may only be changed by the General Assembly. Member employees with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever an employee's combined age and years of credited service equal 85 "points".

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, member employees may withdraw their contributions from their individual accounts, including interest. Member employees who withdraw their accumulated contributions lose all rights and privileges of membership. The accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Member employees chose one of seven payment options for their monthly retirement benefits. At retirement a member employee may receive a lump-sum payment of up to 50% of the actuarial present value of the member employee's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump-sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas.

The 2012 Legislature made changes affecting new hires, current members and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015, was created. Normal retirement age for KPERS 3 is 65 with five years of service or 60 with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement. For all pension coverage groups the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions: Member contribution rates are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation for each of the three state wide pension groups.

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017

The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

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

The actuarially determined employer contribution rates (not including the 0.85% contribution rate for the Death and Disability Program) and the statutory contribution rates are as follows:

	Actuarial employer rate	Statutory employer capped rate
State employees	10.80 %	11.27/8.65 %
School employees	15.41	11.27/8.65
State/School employees (combined rate)	14.34	11.27/8.65
Local government employees	9.48	9.48
Police and Firemen	21.36	21.36
Judges	22.59	22.59

The State/School subgroups are combined into one group for purposes of determining a contribution rate. In fiscal year 2015 for the state and school employer groups, the Governor declared an allotment affecting the employer rate for the last two quarters of the fiscal year. The employer rate was reduced from 11.27 percent to 8.65 percent.

Member contribution rates as a percentage of eligible compensation in fiscal year 2015 are 5.00% or 6.00% for Public Employees, 7.15% for Police and Firemen, and 2.00% or 6.00% for Judges.

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

At June 30, 2017, Fort Hays State University reported a liability of \$13,528,228 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, which was rolled forward to June 30, 2015. Fort Hays State University proportion of the net pension liability was based on the ratio of Fort Hays State University actual contributions to KPERS, relative to the total employer and non-employer contributions of the State/School subgroup within KPERS for the fiscal year ended June 30, 2015. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2015 Fort Hays State University proportion was 19.84%, which was a decrease of .374% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2017, Fort Hays State University recognized pension expense of \$(776,192). At June 30, 2017 Fort Hays State University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	45,933	606,580
Net difference between projected and actual earnings on pension plan investments	1,257,222	-
Changes in proportion	849,798	1,650,994
Changes in Assumptions	<u> </u>	<u>28,252</u>
Total	2,152,953	2,285,826

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017

\$1,034,085 reported as deferred outflows of resources related to pensions resulting from Fort Hays State University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	(199,613)
2019	177,604
2020	39,180
2021	(220,032)
Thereafter	-
Total	<u>(202,861)</u>

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

Price inflation	3.00 percent
Wage inflation	4.00 percent
Salary increases, including wage increases	4.00 to 16.0 percent, including inflation
Long-term rate of return net of investment expense, and including price inflation	8.00 percent

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA. The actuarial assumptions used in the December 31, 2014, valuation were based on the results of an actuarial experience study conducted for the three year period beginning December 31, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	13	0.80
Yield driven	8	4.20
Real return	11	1.70
Real estate	11	5.40
Alternatives	8	9.40
Short-term investments	2	(0.50)
Total	100%	

Discount rate: The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from Fort Hays State University will be made at contractually required rates,

actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Fort Hays State University proportionate share of the net pension liability to changes in the discount rate: The following presents Fort Hays State University proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what Fort Hays State University proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Fort Hays State University proportionate share of the net pension liability	\$ 16,459,263	\$ 12,657,908	\$ 9,428,912

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

NOTE 11 - Commitments and Contingent Liabilities

The University, as a state educational institution of Kansas, is subject to the State of Kansas self-insurance program with regard to comprehensive general liability and personal injury insurance. The University is covered by the State's umbrella insurance policies for automobile liability and property insurance. The university maintains specific insurance coverage as allowed by the State of Kansas and as required by outstanding revenue bond issues. Also, the University is self-insured relative to worker's compensation, medical and unemployment insurance.

In the normal course of operations, the University receives grants and other forms of reimbursement from various Federal and State agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing of such funds. University officials believe that the liability, if any, for any reimbursement that may arise as the result of audits, would not be material.

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NOTE 12 –Expenses by Natural and Functional Classifications

	<u>Compensation & Benefits</u>	<u>Scholarships & Fellowships</u>	<u>Utilities</u>	<u>Supplies & Other Services</u>	<u>Depreciation</u>	<u>Total</u>
Educational and general						
Instruction	\$ 40,920,935	609,976	1,939	3,346,541	-	\$ 44,879,391
Research	399,462	29,680	105	301,633	-	730,880
Public service	2,924,667	3,398	860	2,215,683	-	5,144,608
Academic support	9,273,975	3,000	48,896	5,670,311	-	14,996,182
Student services	7,103,786	383,953	7,060	3,514,352	-	11,009,151
Institutional support	6,121,677	257,612	-	2,112,647	-	8,491,936
Operations and maintenance of plant	5,790,943	-	803,207	893,158	-	7,487,308
Depreciation	-	-	-	-	4,305,524	4,305,524
Scholarships and fellowships	79,498	12,075,836	-	920,222	-	13,075,556
Auxiliary Enterprises						
Residential Life	2,055,609	-	857,801	5,955,503	-	8,868,913
Parking	32,888	-	-	70,244	-	103,132
Student unions	812,904	-	253,367	189,777	-	1,256,048
University health services	683,738	-	5,144	206,185	-	895,067
Other operating expenses	660,990	-	-	1,896,779	-	2,557,769
Total \$	<u>76,861,072</u>	<u>13,363,455</u>	<u>1,978,379</u>	<u>27,293,035</u>	<u>4,305,524</u>	<u>\$ 123,801,465</u>

NOTE 13 – Other Postemployment Healthcare Benefits

Description. As a component unit of the State of Kansas, the University participates in the State's health insurance benefit plan. Kansas statute provides that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements. The health insurance benefit generally provides the same coverage for retirees and their dependents as for active employees and their dependents. The health insurance benefit plan is a single employer defined benefit plan administered by Kansas Health Policy Authority. The benefit is available for selection at retirement and is extended to retirees and their dependents for life. Non-Medicare participants are subsidized by the State, thus resulting in a liability to the State. The accounting for the health insurance for retirees is included in the State's Self-Insurance Health fund, with the subsidy provided from the Self-Insurance Health fund.

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Funding Policy. The University provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 75-6511). Kansas statute, which may be amended by the state legislature, established that participating retirees contribute to the employee group health fund benefits plan, including administrative costs.

The University does not pay retiree benefits directly; they are paid implicitly, over time, through employer subsidization of active premiums that would be lower if retirees were not part of the experience group.

Annual OPEB Cost and Net OPEB Obligation. The University's annual OPEB (Other Post Employment Benefits) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following table presents the components of the University's annual OPEB cost for the year, the University's contribution to the plan, and changes in the University's net OPEB obligation.

Annual required contributions (ARC)	69,441
Adjustment to the ARC	(65,820)
Interest on Net OPEB Obligation	2,440
Decrease in net OPEB obligation	6,061
Net Employer Contribution	(69,441)
Net OPEB obligation July 1, 2016	63,380
Net OPEB obligation June 30, 2017	\$ 0

Schedule of Employer Contributions (for fiscal year ended)

Fiscal Year	Annual OPEB Cost	Net Employer Contributions	Percentage Contributed	End of Year Net OPEB Obligation
2014	485,000	69,000	14%	3,045,000
2015	464,000	151,000	33%	3,338,000
2016	(3,184,927)	109,693	0%	63,380
2017	6,061	69,441	1,146%	0

Funded Status and Funding Progress. As of June 30, 2017, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$0. The University's policy is to fund the benefits that are paid implicitly through rate subsidization resulting in an unfunded actuarial accrued liability (UAAL) of \$0. The covered payroll (annual payroll of active employees covered by the plan) was \$56,114,016, and the ratio of the UAAL to the covered payroll was 0 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding

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progress will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
6/30/2014	\$0	\$4,538,000	\$4,538,000	0%	\$51,370,000	9%
6/30/2015	\$0	\$4,421,000	\$4,421,000	0%	\$50,634,000	9%
6/30/2016	\$0	\$63,380	\$63,380	0%	\$59,356,137	0%
6/30/2017	\$0	0	0	0%	\$56,114,016	0%

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

In the June 30, 2016, actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. Since the plan is becoming employee-pay-all in 2017, the trend rates for Medical, Prescription Drug and Administrative costs was assumed to be -100% in 2017 and 0% thereafter. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results. As the subsidy ends December 31, 2016, the amortization is set to equal the benefit payments for the period.

Subsequent Event - Internal Borrowing

Senate Substitute for Substitute House Bill 2052 was passed during the 2017 Legislative Session and approved by the governor on April 18, 2017. House Bill 2052, Section 45(m) provides for the internal borrowing from the Pooled Money Investment Board idle funds pool for deposit to the State General Fund. Repayment of the internal borrowing is to be in 6 equal payments beginning on or before June 30, 2019 June 30, 2020, June 30, 2021, June 30, 2022, June 30, 2023 and June 30, 2024.

As certified by the director of the budget a borrowing in the amount of \$198,400,000 was effected in June 2017 and a subsequent borrowing in the amount of \$118,000,000 was effected in July 2017. The amounts borrowed have been allocated to specific state funds of the idle funds pool. Of the amount borrowed in July 2017, for the state fiscal year 2018, \$5,000,000 is anticipated to be allocated to the Fort Hays State University General Fees Fund. This will create a restriction of that amount for fiscal year 2018 financial statement reporting for the Fort Hays State University General Fees Fund.