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**FORT HAYS STATE
UNIVERSITY**

Forward thinking. World ready.



**ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR 2018
ENDED JUNE 30, 2018**



FORT HAYS STATE UNIVERSITY

Forward thinking. World ready.

FORT HAYS STATE UNIVERSITY ANNUAL FINANCIAL REPORT For the Year Ended June 30, 2018

Dr. Tisa Mason, President

Kansas Board of Regents

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Ann Brandau Murguia
Bill Feuerborn
Mark Hutton**

**Dave Murfin
Allen Schmidt
Daniel Thomas
Helen Van Etten**

Blake Flanders, President and CEO

University Financial Personnel Reporting

**Michael W. Barnett, Vice President for Administration and Finance
Michael J. Drees, Controller
Rachel Depenbusch, Associate Controller**

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FORT HAYS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018

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 Governmental 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 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, 2018, were \$215.5 million, an increase of \$3.2 million or 1.5%. Capital assets, net of depreciation, comprised 75.2 %, or \$162.1 million of the \$215.5 million in total assets.

Total Liabilities were \$68.6 million at June 30, 2018, an increase of \$3.9 million or a 6.1% increase compared to \$64.7 million at June 30, 2017. This was partially due to a reclassification of \$5.1 million from Net Position Restricted to Liabilities for the Perkins loan program. This program was funded with aid from the federal government and matched with institutional funds. The federal funds were recorded as grant revenue which resulted in increases to Net Position Restricted. The program ended during the fiscal year so the funds received from the federal government were reclassified as a liability as they may not be used for new loans. Long-term liabilities comprised 70.5%, or \$48.4 million of the total liabilities.

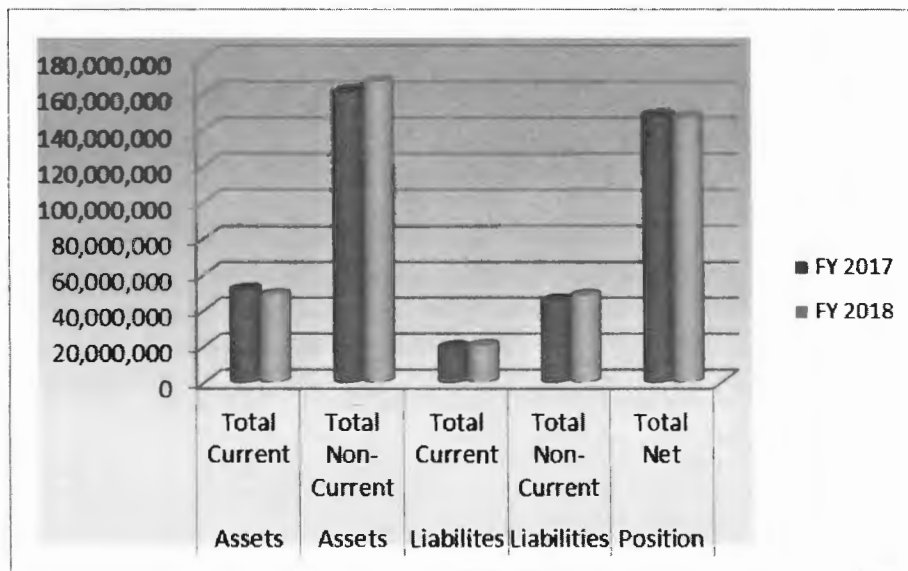
FORT HAYS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018

Total Net Position at June 30, 2018, was \$147.3 million, a \$0.3million decrease from the prior year, or a 0.2% decrease in Net Position.

The breakout of Net Position is shown below:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Capital Assets, net of related debt.....	\$131,314,933	\$123,711,014
Restricted Net Position.....	6,342,912	14,998,280
Unrestricted Net Position	<u>9,625,165</u>	<u>8,844,446</u>
Total Net Position.....	<u>\$147,283,010</u>	<u>\$147,553,740</u>

The composition of current and non-current assets and liabilities and net position is displayed below for both 2018 and 2017 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

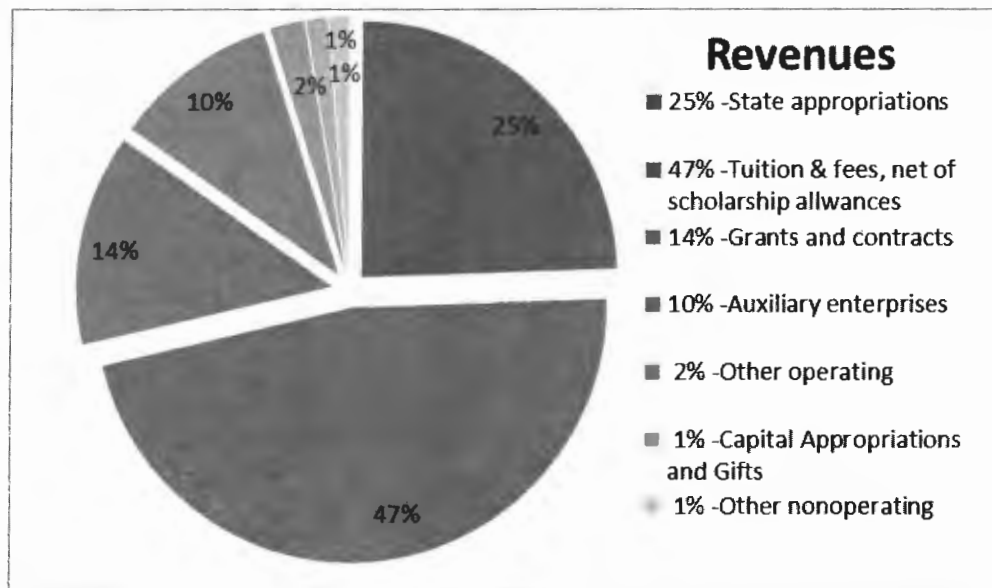
Operating revenues at the University as of June 30, 2018, increased by 5.3% over the previous fiscal year. The following is a brief summary of the significant changes:

Student fee revenues, after scholarship allowances, were \$62.7 million in 2018, compared to \$56.9 million in 2017. This increase is in part a result of a 2.94% tuition increase approved by the Kansas Board of Regents for fiscal year 2018. 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.

FORT HAYS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018

Total non-operating revenues decreased by 3.7%, when comparing FY2018 \$44.8 million to FY2017 \$46.5 million. State appropriations decreased .001% when comparing \$32.78 million in FY2018 to \$32.82 million in FY2017. Federal grants, including Pell Grants, increased 12.8% to \$15.9 million from \$14.1 million in FY2017.

In summary, total revenues increased by \$1.9 million, from \$132.0 million to \$133.9 million. The composition of FY2018 revenues is displayed in the following graph:



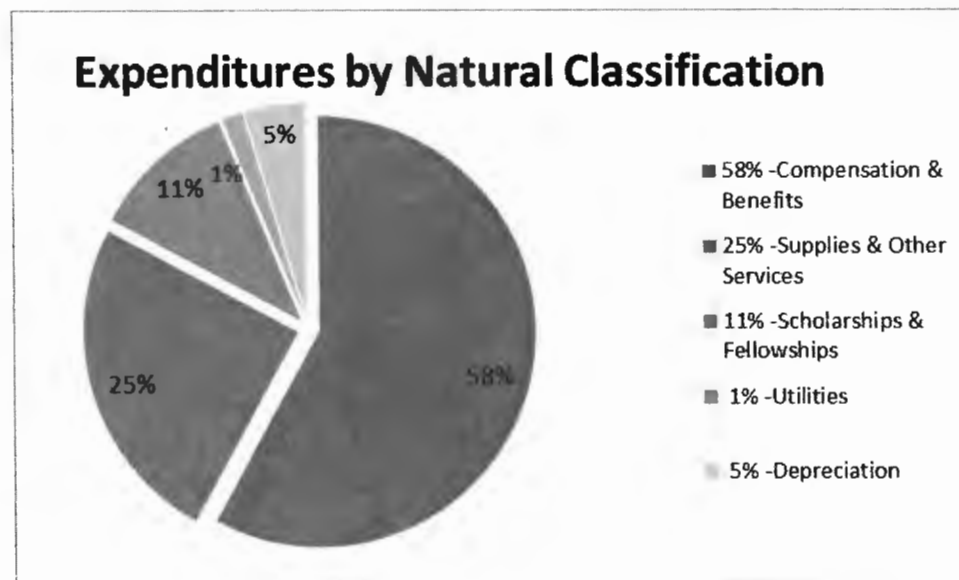
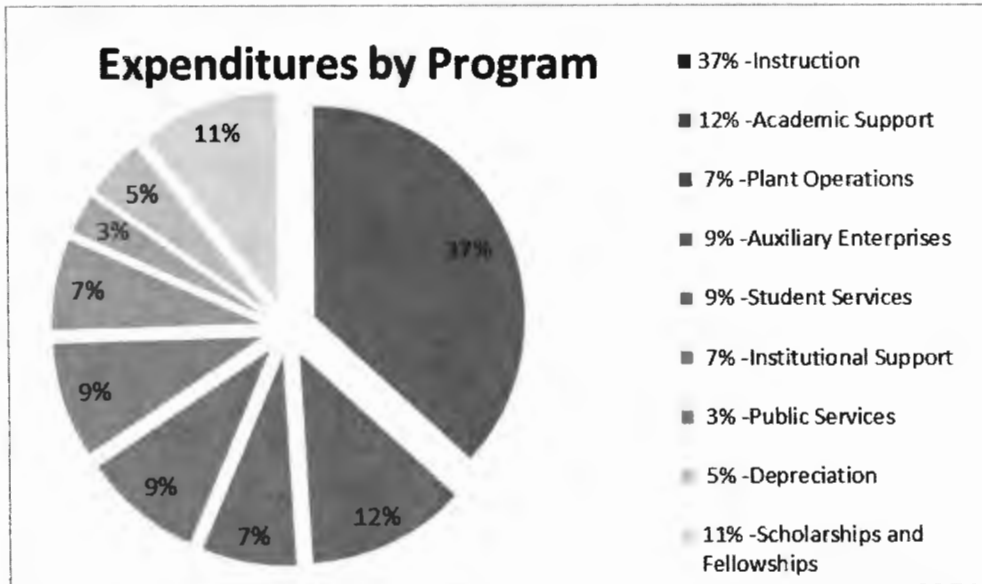
Expenses

Operating expenses were \$132.7 million for the 2018 fiscal year compared to \$123.8 million for the 2017 fiscal year. Instruction expenses increased \$2.9 million; Academic Support increased \$1.3 million; Student Services increased \$.8 million; and Institutional Support increased \$.8 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 on the next page:

FORT HAYS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018



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 \$962,481 and \$521,862 in 2018 and 2017, respectively.

FORT HAYS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018

Net Position

Net position for the current year decreased by \$0.3 million. This decrease is primarily a result of an increase in capital assets, net of depreciation, the reclassification of the Perkins loan program to a liability, 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. Following is a condensed statement of cash flows for the fiscal years ended June 30, 2018 and 2017:

	June 30, 2018	June 30, 2017
Net cash provided (used) by:		
Operating activities	\$(39,359,868)	\$(37,737,194)
Noncapital financing activities	50,224,916	47,715,360
Capital and related financing activities	(13,243,172)	(46,426,845)
Investing activities	-	-
Net increase (decrease) in cash	(2,378,124)	(36,448,679)
Beginning cash and cash equivalent balances	44,406,908	80,855,587
Ending cash and cash equivalent balances	\$ 42,028,784	\$ 44,406,908

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 2018 fiscal year. Detailed financial information regarding capital asset additions, retirements & depreciation is available in Note 5 to the financial statements. The following is a brief summary of major capital projects currently in process:

The following major construction projects were completed during the current fiscal year: \$12.7 million Applied Technology building, \$3.8 million Hansen Scholarship building, \$1.1 million Themed Housing building, and \$3.1 million Track and Field Facility.

The following major construction projects were under construction at the end of the fiscal year: \$30.9 million Wiest Hall building replacement and parking lot and \$12.1 million Art building.

FORT HAYS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018

DEBT ADMINISTRATION

At June 30, 2018, the University had \$30.8 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 \$30,845,000 was incurred during the 2016 fiscal year to finance Wiest Hall Replacement and Themed Housing Project in the amount of \$26.7 million; and refunding of the Memorial Union Renovation Project in the amount of \$4.1 million

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 2018. State of Kansas resources have stabilized somewhat with the return of previous year's reductions of approximately \$667,000. It appears though the total State budget is still strained with the court ordered increases to K-12 funding making future enhancements to FHSU a slight possibility. The University administration will monitor developments in the State's overall operating budget while having plans in place for changes in overall funding to higher education. The plans include maintaining sufficient operating reserves and creating opportunities for enrollment growth by strategically allocating available resources.

The University economic outlook is strong. Enrollment for the academic 2018-2019 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, 2018 and 2017

	Component Units			
ASSETS	2018	2017	2018	2017
Current assets				
Cash and cash equivalents	\$ 37,573,731	\$ 40,764,150	\$ 249,182	\$ 320,736
Restricted cash and cash equivalents	4,455,053	3,642,758	-	-
Investments	258,428	237,880	-	-
Accounts receivable, net	3,587,470	3,996,998	11,379	24,620
Loans to students, net - current portion	699,735	904,048	-	-
Inventories	119,390	132,578	8,659	9,111
Prepaid expenses	1,833,591	1,738,113	3,320	3,616
Total current assets	48,527,398	51,416,525	272,540	358,083
Noncurrent assets				
Restricted cash and cash equivalents	-	-	3,979,646	4,698,675
Investments, bond reserve	-	-	286,965	266,517
Loans to students, net	4,927,314	4,776,766	-	-
Capital assets, net	162,107,006	156,148,975	1,520,258	990,052
Total noncurrent assets	167,034,320	160,925,741	5,786,869	5,955,244
Total assets	215,561,718	212,342,266	6,059,409	6,313,327
DEFERRED OUTFLOWS OF RESOURCES				
Pension contributions	2,526,081	2,152,953	-	-
Other post employment benefits	70,184	-	-	-
Total deferred outflows	2,596,265	2,152,953	-	-
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	11,304,731	10,984,047	102,937	92,884
Deferred revenue	4,200,208	4,212,375	147,160	103,044
Accrued compensated absences - current portion	2,174,808	2,134,345	-	-
Capital leases payable - current portion	390,043	365,886	-	-
Revenue bonds payable - current portion	1,195,000	1,280,000	-	-
Deposits held in custody for others	323,273	301,790	-	-
Perkins loans payable - federal portion	607,927	-	-	-
Unamortized bond premium/discounts, current portion	58,039	61,573	-	-
Total current liabilities	20,254,029	19,340,016	250,097	195,928
Noncurrent liabilities				
Accrued compensated absences	416,793	282,213	-	-
Capital leases payable	1,087,030	1,477,073	-	-
Other postemployment healthcare benefits	519,710	-	-	-
Perkins loans payable - federal portion	4,474,182	-	-	-
Revenue bonds payable	28,120,000	29,315,000	-	-
Unamortized bond premium/discounts	655,084	713,123	-	-
Pension liability	13,079,878	13,528,228	-	-
Total noncurrent liabilities	48,352,677	45,315,637	-	-
Total liabilities	68,606,706	64,655,653	250,097	195,928
DEFERRED INFLOWS OF RESOURCES				
Deferred pension inflows	2,257,716	2,285,826	-	-
Other post employment benefits	10,551	-	-	-
Total deferred inflows	2,268,267	2,285,826	-	-
NET POSITION				
Net investment in capital assets	131,314,933	123,711,014	1,520,258	990,052
Restricted for:				
Expendable:				
Loans	896,843	6,632,074	-	-
Debt service	2,628,908	2,756,159	-	-
Capital projects	2,817,161	5,610,047	-	-
Other Purposes	-	-	3,980,637	4,698,675
Unrestricted	9,625,165	8,844,446	308,417	428,672
Total Net position	\$ 147,283,010	\$ 147,553,740	\$ 5,809,312	\$ 6,117,399

See accompanying notes to financial statements.

FORT HAYS STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended June 30, 2018 and 2017

	<u>University Funds</u>		<u>Component Units</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<u>OPERATING REVENUES</u>				
Tuition and fees (net of scholarship allowances of \$10,292,848 and \$9,149,037 in 2018 and 2017 respectively)	\$ 62,753,810	\$ 56,961,207	\$ -	\$ -
Federal grants and contracts	4,758,663	3,951,738	-	-
State and local grants and contracts	2,300,621	3,313,475	-	-
Sales and services of educational departments	360,929	1,271,523	-	-
Auxiliary enterprises:				
Residential Life	10,818,675	9,765,491	-	-
Athletics	-	-	3,125,401	4,332,039
Parking	291,706	280,472	-	-
Student Union	1,983,197	1,987,352	-	-
University Health Services	809,744	813,527	-	-
Interest earned on loans to students	112,596	108,043	-	-
Other operating revenues	2,449,148	3,825,209	193,632	204,254
Total operating revenues	<u>86,639,089</u>	<u>82,278,037</u>	<u>3,319,033</u>	<u>4,536,293</u>
<u>OPERATING EXPENSES</u>				
Educational and General				
Instruction	47,852,821	44,879,391	-	-
Research	1,047,388	730,880	-	-
Public service	4,039,625	5,144,608	-	-
Academic support	16,312,465	14,996,182	-	-
Student services	11,820,133	11,009,151	-	-
Institutional support	9,325,878	8,491,936	-	-
Operations and maintenance of plant	7,112,024	7,487,308	-	-
Depreciation	6,098,623	4,305,524	169,977	135,650
Scholarships and fellowships	14,307,994	13,075,556	-	-
Auxiliary enterprises:				
Residential Life	9,494,714	8,868,913	-	-
Athletics	-	-	3,369,042	2,864,080
Parking	83,033	103,132	-	-
Student Union	1,842,011	1,256,048	-	-
University Health Services	792,337	895,067	-	-
Other operating expenses	2,594,572	2,557,769	164,731	176,610
Total operating expenses	<u>132,723,618</u>	<u>123,801,465</u>	<u>3,703,750</u>	<u>3,176,340</u>
Operating Income (Loss)	<u>(46,084,529)</u>	<u>(41,523,428)</u>	<u>(384,717)</u>	<u>1,359,953</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>				
State appropriations	32,777,502	32,822,540	-	-
Federal grants and contracts	15,945,703	14,069,168	-	-
Gifts	307,154	521,862	-	-
Investment income	-	-	-	-
Other non-operating revenue (expenses)	(3,280,560)	107,649	-	-
Interest expense	(951,382)	(1,043,755)	-	-
Net nonoperating revenues (expenses)	<u>44,798,417</u>	<u>46,477,464</u>	<u>-</u>	<u>-</u>
Income before other revenues, expenses, gains, or losses	<u>(1,286,112)</u>	<u>4,954,036</u>	<u>(384,717)</u>	<u>1,359,953</u>
Capital appropriations	<u>1,497,923</u>	<u>2,234,948</u>	<u>-</u>	<u>-</u>
Increase (Decrease) In Net Position	<u>211,811</u>	<u>7,188,984</u>	<u>(384,717)</u>	<u>1,359,953</u>
<u>NET POSITION</u>				
Net Position - beginning of year	147,553,740	140,364,756	6,117,399	4,757,446
Revisions to beginning net position	(482,541)	-	76,630	-
Net Position - beginning of year(as adjusted)	<u>147,071,199</u>	<u>140,364,756</u>	<u>6,194,029</u>	<u>4,757,446</u>
Net Position - end of year	<u>\$ 147,283,010</u>	<u>\$ 147,553,740</u>	<u>\$ 5,809,312</u>	<u>\$ 6,117,399</u>

See accompanying notes to financial statements

FORT HAYS STATE UNIVERSITY
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Tuition and fees	\$ 63,435,853	\$ 56,961,207
Sales and services of educational activities	467,595	1,271,523
Auxiliary enterprises:		
Residential Life	1,323,961	9,765,491
Parking	208,673	280,472
Student union	141,186	1,987,352
University health services	17,407	813,527
Grants and contracts	6,675,263	7,265,213
Payments to Suppliers	(26,279,352)	(27,293,035)
Payments to utilities	(990,346)	(1,978,379)
Compensation and benefits	(73,134,207)	(76,861,072)
Payments for scholarships and fellowships	(13,700,067)	(13,363,455)
Loans issued to students and employees	(717,720)	(845,831)
Collection of loans to students and employees	771,485	904,046
Other receipts (payments)	2,420,401	3,355,747
Net cash provided (used) by operating activities	<u>(39,359,868)</u>	<u>(37,737,194)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
State appropriations	32,777,502	32,822,540
Other Federal Grants and Contracts	15,945,703	14,069,168
Gifts	307,154	521,862
Deposits held in custody for others	935	301,790
Federal family education loan receipts	51,648,748	51,100,776
Federal family education loan disbursements	(51,648,748)	(51,100,776)
Other	1,193,622	-
Net cash provided by noncapital financing activities	<u>50,224,916</u>	<u>47,715,360</u>
<u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</u>		
Capital appropriations	1,497,923	2,234,948
Purchases of capital assets	(12,056,654)	(47,693,935)
Proceeds from issue of bonds	-	-
Principal paid on capital debt and leases	(1,645,886)	(862,862)
Interest paid on capital debt and leases	(976,982)	(1,155,325)
Other	(61,573)	1,050,329
Net cash used by capital financing activities	<u>(13,243,172)</u>	<u>(46,426,845)</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	(2,378,124)	(36,448,679)
Cash - beginning of the year	44,406,908	80,855,587
Cash - end of year	<u>\$ 42,028,784</u>	<u>\$ 44,406,908</u>
<u>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO</u>		
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>		
Operating income (loss)	\$ (46,084,529)	\$ (41,523,428)
Adjustments to reconcile operating income (loss) to net cash		
provided (used) by operating activities:		
Depreciation expense	6,098,623	4,305,524
Changes in assets and liabilities:		
Accounts receivables, net	409,530	748,476
Loans to students, net	53,765	154,168
Inventories	13,186	(26,792)
Prepaid expenses	(95,478)	(34,130)
Accounts payable and accrued liabilities	1,088,791	147,393
Other Postemployment Healthcare Benefits	37,169	(63,380)
Deferred revenue	(12,167)	719,500
Pension Liability	(909,221)	(1,895,073)
Unamortized bond premiums	-	(57,751)
Due to Other Funds/Deposits held for others	-	(54,543)
Accrued compensated absences	40,463	(157,158)
Net cash provided (used) by operating activities:	<u>\$ (39,359,868)</u>	<u>\$ (37,737,194)</u>

See accompanying notes to financial statements

FORT HAYS STATE UNIVERSITY FOUNDATION
Consolidated Statements of Financial Position
June 30, 2018 and 2017

ASSETS

	2018	2017
Cash and Cash Equivalents	\$ 72,588	\$ 103,679
Certificates and money market funds	4,633,121	5,672,868
Securities and limited partnerships	84,726,318	77,273,778
Student notes receivable and matching fund programs, net of allowance for doubtful accounts	135,493	159,742
Art and Coin Collections	152,812	170,301
Coins held for sale	6,382	-
Rental Investments	565,282	587,893
Cash surrender value of life insurance	355,019	354,933
Oil and working interest, less accumulated depletion	165,076	236,809
Land, buildings, equipment and oil royalties, less accumulated depreciation, depletion and reserve for impairment	7,461,673	7,579,204
Other	20,076	17,705
	<u>98,293,840</u>	<u>92,156,912</u>
Total Assets		

LIABILITIES AND NET ASSETS

Liabilities

Due to agency funds and other	39,960	46,380
Annuity contracts payable	642,929	671,117
	<u>682,889</u>	<u>717,497</u>
Total Liabilities		

Net Assets

Unrestricted	11,832,073	11,044,920
Temporarily restricted	33,150,654	31,351,174
Permanently restricted	52,628,224	49,043,321
	<u>97,610,951</u>	<u>91,439,415</u>

Total Net Assets	<u>97,610,951</u>	<u>91,439,415</u>
Total Liabilities and Net assets	<u>\$ 98,293,840</u>	<u>\$ 92,156,912</u>

FORT HAYS STATE UNIVERSITY FOUNDATION
Consolidated Statements of Activities
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues, Gains and (losses)		
Fund Raising		
Estate and planned gifts	\$ 2,707,281	\$ 10,057,010
Major Gifts	4,027,503	7,404,825
Other	<u>1,727,839</u>	<u>1,763,753</u>
Total Fund Raising	8,462,623	19,225,588
Investment return and Gain on sale of real estate	5,398,937	9,220,239
Oil and gas	177,518	155,661
Farm rent	15,092	14,646
Management fees	159,775	165,089
Other revenues, net of bad debts	<u>352,843</u>	<u>1,324,173</u>
Total Revenues and Net Gains (Losses)	14,566,788	30,105,396
Net assets released from restrictions	<u>-</u>	<u>-</u>
Total Revenues, Gains (Losses) and Other Support	14,566,788	30,105,396
Expenses and Losses		
Program and General		
Scholarships, grants and awards	2,334,456	2,002,228
Fund and farm expenses	3,729,394	3,505,634
Management fees	181,722	165,742
Foundation operating expenses	1,953,749	1,850,301
Oil expenses	106,688	107,444
Power of one campaign expenses	-	-
The Journey campaign expenses	83,568	61,210
Campuscall expenses	<u>33,893</u>	<u>38,202</u>
Total Program and General Expenses	<u>8,423,470</u>	<u>7,730,761</u>
Excess of Revenues Over (Under) Expenses	6,143,318	22,374,635
Other Changes		
Change in value and actuarial gain		
(loss) on annuity contracts	16,183	45,331
Transfers (to) from agency funds	12,035	(3,000)
Interfund transfers	<u>-</u>	<u>-</u>
Change in Net Assets	6,171,536	22,416,966
Net Assets at Beginning of Year	<u>91,439,415</u>	<u>69,022,449</u>
Net Assets at End of Year	<u><u>\$ 97,610,951</u></u>	<u><u>\$ 91,439,415</u></u>

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
For the Year Ended June 30, 2018

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 4,511, an enrollment of 4,007 in our partner universities in China, and an enrollment in our Virtual College of 7,005, for a total enrollment of 15,523. 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 and the Fort Hays State University Athletic Association.

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, 2018

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, 2018, refer to activity pertaining to the recognition of the KPERS Pension liability per GASB 68 and the KPERS Death and Disability other post-employment benefit per GASB 75.

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, 2018

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 2018 summer session are reported in the Statement of Revenues, Expenses and Changes in Net Position as revenues and expenses for FY 2019. Summer session revenues received prior to June 30, 2018, are reported as unearned revenues in the Statement of Net Position. Expenses for the summer session paid prior to June 30, 2018, 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, 2018 and 2017 was \$42,028,784 and \$44,406,908, 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 of \$258,428 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, 2018

NOTE 3 - Accounts Receivable

Accounts receivable, net of estimated uncollectible amounts, consisted of the following at June 30, 2018:

Tuition, Fees & Other	\$ 1,122,262
Auxiliary enterprises	117,703
Grants & Contracts	685,451
Appropriated Funds	<u>1,662,084</u>
	<u>\$ 3,587,470</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, 2018. 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, 2018, the allowance for uncollectible loans was estimated to be \$281,347.

NOTE 5 - Capital Assets

	Beginning Balance	Additions	Retirements	Ending Balance
Non-depreciable capital assets				
Land	\$ 304,456	\$ -	\$ -	\$ 304,456
Construction in progress	41,695,965	4,833,254	12,780,065	33,749,154
Software	4,801,423	746,135	4,326,096	1,221,462
Total non-depreciable capital assets	<u>46,801,844</u>	<u>5,579,389</u>	<u>17,106,161</u>	<u>35,275,072</u>
Depreciable capital assets				
Infrastructure	25,483,916	435,783	-	25,919,699
Buildings	142,431,979	16,284,447	-	158,716,426
Equipment	22,858,156	2,487,671	2,579,909	22,765,918
Intangible	19,778	4,326,095	-	4,345,873
Vehicles	1,574,939	225,401	216,341	1,583,999
Total depreciable capital assets	<u>192,368,768</u>	<u>23,759,397</u>	<u>2,796,250</u>	<u>213,331,915</u>
Total capital asset cost	<u>239,170,612</u>	<u>29,338,786</u>	<u>19,902,411</u>	<u>248,606,987</u>
Accumulated depreciation				
Infrastructure	6,384,095	957,039	-	7,341,134
Buildings	65,141,112	3,141,896	-	68,283,008
Equipment	10,383,461	1,535,494	2,404,668	9,514,287
Intangible	5,827	274,685	-	280,512
Vehicles	1,107,142	189,509	215,611	1,081,040
Total accumulated depreciation	<u>83,021,637</u>	<u>6,098,623</u>	<u>2,620,279</u>	<u>86,499,981</u>
Capital Assets Net	<u>\$ 156,148,975</u>	<u>\$ 23,240,163</u>	<u>\$ 17,282,132</u>	<u>\$ 162,107,006</u>

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
For the Year Ended June 30, 2018

NOTE 6 - Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital leases payable	\$ 1,842,959	\$ -	\$ 365,886	\$ 1,477,073	\$ 390,043
Revenue bonds payable	30,595,000	-	1,280,000	29,315,000	1,195,000
Premium	774,696	-	61,573	713,123	58,039
Compensated absences	2,416,558	175,043	-	2,591,601	2,174,808
Perkins loan program	-	5,082,109	-	5,082,109	607,927
Post employment benefits	-	519,710	-	519,710	-
Net pension liability	13,528,228	-	48,350	13,079,878	-
Total long-term liabilities	<u>\$ 49,157,441</u>	<u>\$ 5,776,862</u>	<u>\$ 2,155,809</u>	<u>\$ 52,778,494</u>	<u>\$ 4,425,817</u>

NOTE 7 - Revenue Bonds Outstanding

Revenue bonds payable consist of the following:

	Principal Outstanding at 6/30/18
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	\$ 26,025,000
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.	\$ 3,290,000

NOTE 8 - Revenue Bonds Maturity Schedule:

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

Year Ending June 30	Principal	Interest	Total
2019	\$ 1,195,000	\$ 987,355	\$ 2,182,355
2020	1,230,000	951,505	2,181,505
2021	1,275,000	902,305	2,177,305
2022	1,325,000	851,305	2,176,305
2023-2027	6,265,000	3,550,325	9,815,325
2028-2032	5,540,000	2,654,450	8,194,450
2033-2037	6,465,000	1,721,750	8,186,750
2038-2041	6,020,000	539,020	6,559,020
	<u>\$ 29,315,000</u>	<u>\$ 12,158,015</u>	<u>\$ 41,473,015</u>

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
For the Year Ended June 30, 2018

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 \$1,601,627 as of June 30, 2018. Payments to liquidate these obligations are scheduled as follows:

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

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 \$932,941 during fiscal year 2018 and individual employees contributed \$453,856. 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 \$3,434,443 during fiscal year 2018 and individual employees contributed \$2,206,122.

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 retirement benefits are distributed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions: K.S.A. 74-4919 and K.S.A. 74-4920 establish the KPERS member-employee contributions rates. Effective July 1, 2009, KPERS has two benefit structures and contribution rates depend on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing member hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 5% of covered salary for Tier 1 and 6% of covered salary for Tier 2 members through December 31, 2014. On January 1, 2015, Kansas law increased the KPERS member-employee contribution rate to 6% of covered salary for Tier 1 members; however, the Tier 2 member-employee contribution rate remained at 6% of covered salary. Member employee's contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
For the Year Ended June 30, 2018

State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate for the Death and Disability Program) and the statutory contribution rates for the year ended June 30, 2017 are as follows:

	Actuarial employer rate	Statutory employer capped rate
State employees	10.77%	10.81%
Police and Firemen	21.36	21.36

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

At June 30, 2018, Fort Hays State University reported a liability of \$13,079,878 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. 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 and Police and Fire subgroups within KPERS for the fiscal year ended June 30, 2017. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2017 Fort Hays State University proportion was 0.181652%, which was a decrease of .00668% from its proportion measured as of June 30, 2016. As of June 30, 2017, the University's proportion of the total contributions made to the Police and Fire group was .093277% which was a decrease of .000428% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, Fort Hays State University recognized pension expense of \$1,046,060. At June 30, 2018 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	\$ 42,286	\$ 613,537
Net difference between projected and actual earnings on pension plan investments	294,162	-
Changes in proportion	619,342	1,624,113
Changes in assumptions	637,369	20,066
Contributions subsequent to measurement date	932,922	-
Total	<u>\$ 2,526,081</u>	<u>\$ 2,257,716</u>

\$932,922 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, 2019.

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
For the Year Ended June 30, 2018

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:

2019	(305,365)
2020	88,273
2021	(83,325)
2022	(374,199)
Thereafter	101
Total	<u>(674,515)</u>

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. The actuarial valuation was determined used the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.75 percent
Wage inflation	3.50 percent
Salary increases, including wage increases	3.50 to 12.0 percent, including inflation
Long-term rate of return net of investment expense, and including price inflation	7.75 percent

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as other adjustments based on different membership groups. The actuarial assumptions used in the December 31, 2016, valuation were based on the results of an actuarial experience study conducted for the three year period beginning December 31, 2013.

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.

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, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.80%
Fixed income	13	1.25
Yield driven	8	6.55
Real return	11	1.71
Real estate	11	5.05
Alternatives	8	9.85
Short-term investments	2	(0.25)
Total	<u>100%</u>	

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
For the Year Ended June 30, 2018

Discount rate: The discount rate used to measure the total pension liability was 7.75%. 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's 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 7.75%, 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 (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Fort Hays State University proportionate share of the net pension liability	\$ 17,513,127	\$ 13,079,878	\$ 9,341,501

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.

FORT HAYS STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENT
For the Year Ended June 30, 2018

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	\$ 42,584,197	559,849	956	4,707,826	-	\$ 47,852,828
Research	371,246	44,629	-	631,513	-	1,047,388
Public service	2,072,332	2,332	175	1,964,786	-	4,039,625
Academic support	9,660,546	10,995	55,576	6,585,348	-	16,312,465
Student services	7,242,083	378,637	5,612	4,193,801	-	11,820,133
Institutional support	5,190,460	280,812	-	3,854,606	-	9,325,878
Operations and maintenance of plant	5,630,882	-	927,804	553,338	-	7,112,024
Depreciation	-	-	-	-	6,098,623	6,098,623
Scholarships and fellowships	99,283	13,351,744	-	856,967	-	14,307,994
Auxilliary Enterprises						
Residential Life	2,070,254	-	903,452	6,521,008	-	9,494,714
Parking	30,151	-	-	52,882	-	83,033
Student unions	796,791	-	201,859	843,361	-	1,842,011
University health services	671,685	-	1,877	118,775	-	792,337
Other operating expenses	593,085	-	223	2,001,264	-	2,594,572
Total \$	77,012,995	14,628,998	2,097,534	32,885,475	6,098,623	\$ 132,723,625

Note 13 - KPERS Death and Disability OPEB Plan

Plan Description. The university participates in an agent multiple-employer defined benefit other post-employment benefit (OPEB) plan which is administered by KPERS. The Plan provides long-term disability benefits and life insurance benefit for disabled members to KPERS members, as provided by K.S.A. 74-04927. The plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. Because the trust's assets are used to pay employee benefits other than OPEB, no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. There is no stand-alone financial report for the plan.

Benefits provided:

Benefits are established by statute and may be amended by the KPERS Board of Trustees. The Plan provides long-term disability benefits equal to 60% (prior to January 1, 2006, 66 2/3%) of annual compensation, offset by other benefits. Members receiving long-term disability benefits also receive credit towards their KPERS retirement benefits and have their group life insurance coverage continued under the waiver premium provision.

Long-term disability benefit: Monthly benefit is 60% of the member's monthly compensation, with a minimum of \$100 and maximum of \$5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, worker's compensation benefits, other disability benefits from any other source by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while disability continues until the member's 65th birthday or retirement date, whichever occurs first. If the disability occurs after age 60, benefits are payable while disability continues, for a period of 5 years

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or until the member retires, whichever occurs first. Benefit payments for disabilities caused or contributed to by substance abuse or non-biologically based mental illnesses are limited to the term of the disability or 24 months per lifetime, whichever is less. There are no automatic cost-of-living increase provisions. KPERS has the authority to implement an ad hoc cost-of living increase.

Group life waiver of premium benefit: Upon the death of an employee who is receiving monthly disability benefits, the plan will pay a lump-sum benefit to eligible beneficiaries. The benefit amount will be 150% of the greater of the member's previous 12 months of compensation at the time of the last date on payroll. If the member has been disabled for 5 or more years, the annual compensation or salary rate at the time of death will be indexed using the consumer price before the life insurance benefit is computed. The indexing is based on the consumer price index, less one percentage point, to compute the death benefit. If an member is diagnosed as terminally ill with a life expectancy of 12 months or less, the member may be eligible to receive up to 100% of the death benefit rather than having the benefit paid to the beneficiary. If a member retires or disability benefits end, the member may convert the group life insurance coverage to an individual life insurance plan.

Members covered by benefit terms. At June 30, 2018, the following members were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Active employees	204
	<u>204</u>

Total OPEB Liability

The university's total OPEB liability of \$519,710 was measured as of June 30, 2017, and was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017.

Actuarial assumptions and other inputs. The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all period included in the measurement, unless otherwise noted:

Price inflation	2.75%
Payroll growth	3.00%
Salary increases, including inflation	3.50 to 10%, including price inflation
Discount rate	3.58%
Healthcare cost trend rates	Not applicable for the coverage in this plan
Retiree share of benefit cost	Not applicable for the coverage in this plan

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

Mortality rates were based on the RP-2014 Mortality tables, as appropriate, with adjustment for mortality improvements based on Scale MP-2017.

The actuarial assumptions used in the June 30, 2017 valuation were based on actuarial experience study for the period July 1, 2014 – June 30, 2016. Other demographic assumptions are set to be consistent with the actuarial assumptions reflected in the December 31, 2016 KPERS pension valuation.

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Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at fiscal year-end 6/30/17	<u>\$ 558,281</u>
Changes for the year:	
Service cost	33,151
Interest	15,784
Effect of assumptions changes or inputs	(11,766)
Benefit payments	(75,740)
Net changes	<u>(38,571)</u>
Balance at fiscal year-end 6/30/18	<u><u>\$ 519,710</u></u>

Changes of assumptions. Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The discount rate increased from 2.85% on June 30, 2016 to 3.58% on June 30, 2017.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the university, as well as what the university's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current discount rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Total OPEB liability	\$ 535,632	\$ 519,710	\$ 504,097

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The healthcare trend rates do not affect the liabilities related to the long-term disability benefits sponsored by KPERS. Therefore, there is no sensitivity to a change in healthcare trend rates.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the university recognized OPEB expense of \$47,720. At June 30, 2018, the university reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between actual and expected experience	\$ -	\$ -
Changes in assumptions	-	10,551
Benefit payments subsequent to the measurement date	70,184	-
Total	<u>\$ 70,184</u>	<u>\$ 10,551</u>

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The deferred outflow of resources related to the benefit payments subsequent to the measurement date totaling \$70,184 consist of payments made to KPERS for benefits and administrative costs, and will be recognized as a reduction in the total OPEB liability during the year ended June 30, 2019. Other amounts reported as deferred outflows of sources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	<u>Deferred Outflows (Inflows) of Resources</u>
2019 \$	1,215
2020	1,215
2021	1,215
2022	1,215
2023	5,691
Thereafter	
	<u>\$ 10,551</u>

Note 14 - Prior period adjustment The implementation of GASB 75, KPERS Death and Disability OPEB Plan, resulted in a \$70,184 increase to deferred outflows of resources, a \$519,710 increase to the total OPEB liability and a \$482,541 decrease to net position as of July 1, 2017.