

# EMPORIA STATE UNIVERSITY

## ANNUAL FINANCIAL REPORT FISCAL YEAR 2018



Emporia State University  
Emporia, Kansas

Fiscal Year 2018 Annual Financial Report

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# Management's Discussion and Analysis

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# EMPORIA STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

The following Management's Discussion and Analysis provides an overview of the financial performance of Emporia State University (the "University") based on currently known facts, decisions and conditions and is designed to assist readers in understanding the accompanying financial statements and footnotes. The University has included the audited financial statements of the Emporia State University Foundation, Inc. (the "Foundation") as part of the University's unaudited financial statements. This discussion – along with the financial statements and related footnote disclosures – has been prepared by management and should be read in conjunction with the statements and footnotes. The financial statements, footnotes and this discussion are the responsibility of management.

### USING THIS ANNUAL REPORT

The financial statements segment of this report consists of three financial statements: the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows. The notes to the financial statements present additional information to support the financial statements. Their purpose is to clarify and expand on the information in the financial statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles for public colleges and universities.

### STATEMENTS OF NET POSITION

The Statements of Net Position present the assets, deferred outflows, liabilities, deferred inflows and net position of the University at the end of the fiscal year. Its purpose is to present a financial snapshot of the University. The Statements of Net Position include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting. 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. The statements provide information about the adequacy of resources to meet current and future operating and capital needs.

Within the Statements of Net Position, assets and liabilities are further classified as current or noncurrent. 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 12 months.

Net Position is divided into three categories:

1. **Net Investment in Capital Assets** indicates the University's equity in property, plant and equipment owned by the University.
2. **Restricted Net Position** is available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that 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. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the University's resources in this category have been designated for various academic and research programs and initiatives.

Total assets at June 30, 2018 were \$147,526,507, an increase of \$32,890,266 or 28.7% compared to \$114,636,241 at June 30, 2017. Capital assets, net of depreciation, comprised 52.0% or \$76,640,999 of the total assets in 2018 as compared to 64.8%, or \$74,333,702 of the total assets in 2017.

Total deferred outflows decreased \$252,838, with a decrease of \$361,356 in the actuarially determined deferred pension expense related to the adoption of GASB 68. In addition, other post-employment benefit that provides long-term disability benefits increased \$108,518.

Total liabilities were \$78,910,933 at June 30, 2018, an increase of \$39,927,089 or 102.4% compared to \$38,983,844 at June 30, 2017. Noncurrent liabilities comprised 83.4% or \$65,819,285 of total liabilities in 2018 as compared to 74.8% or \$29,157,117 of total liabilities in 2017. The significant increase in total liabilities is the combined result of a bond issue to construct and remodel residence halls and the Perkins loan program was reclassified to a liability in the current fiscal year.

**EMPORIA STATE UNIVERSITY**

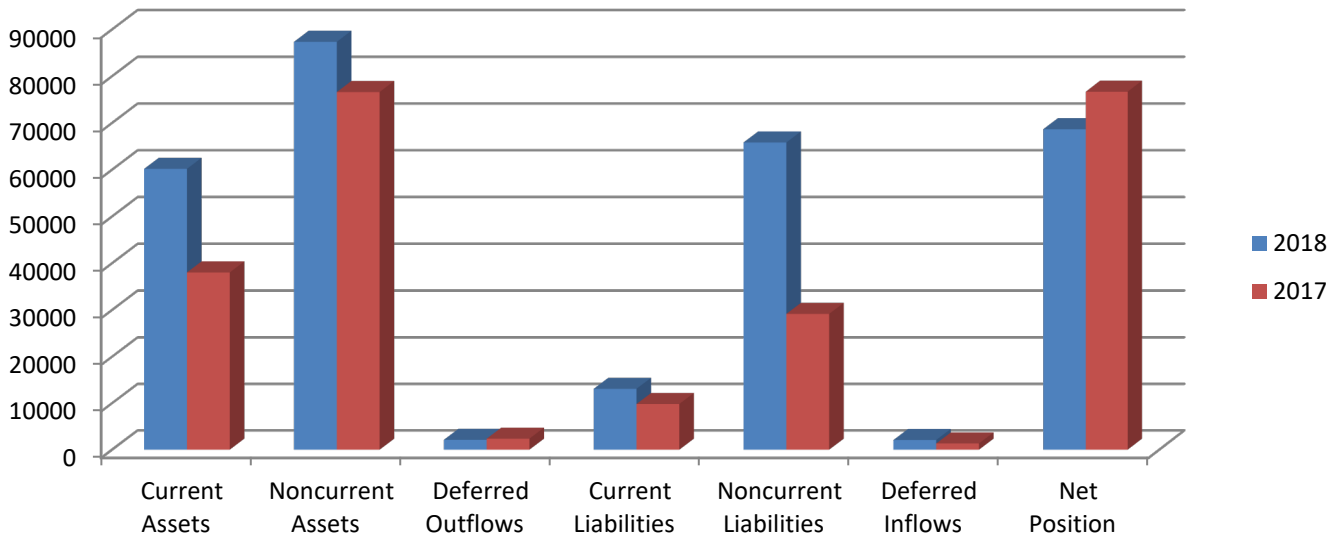
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2018 and 2017**

Total deferred inflows increased \$738,722 related to the adoption of GASB 68 pertaining to the University's share of the KPERS pension liability.

Total Net Position at June 30, 2018 was \$68,653,051, an \$8,028,383 decrease from the previous fiscal year amount of \$76,681,434, or a 10.5% decrease in Net Position. The primary reason for the decrease was due to the reclassification of the federal portion of the Perkins loan program from restricted net position to a liability in the amount of \$6,908,839. The breakout of Net Position is shown below:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Net Position		
Net Investment in Capital Assets	\$ 30,870,999	\$ 57,698,702
Restricted Net Position	27,072,144	11,038,691
Unrestricted Net Position	<u>10,709,908</u>	<u>7,944,041</u>
 Total Net Position	 <u>\$ 68,653,051</u>	 <u>\$ 76,681,434</u>

The composition of current and noncurrent assets, deferred outflows, current and noncurrent liabilities, deferred inflows and net position is displayed below for both the 2018 and 2017 fiscal year ends (in thousands):



**EMPORIA STATE UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2018 and 2017**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

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

**Revenues**

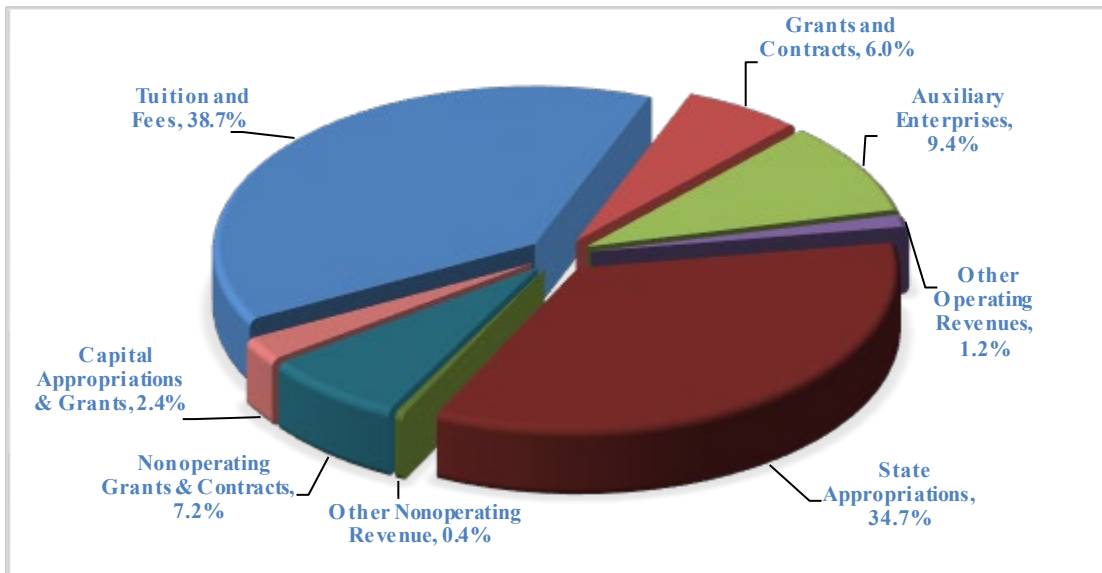
Operating revenues were \$49.3 million for the 2018 fiscal year. This was a decrease of \$1,482,820 or 2.9% from the previous fiscal year. The following is a brief summary of the significant changes:

- Student tuition and fee revenues, after scholarship allowances, were \$34.5 million in 2018, compared to \$35.7 million in 2017, an overall decrease of 3.4%. This decrease is a direct result of a small enrollment decline. The tuition and fees increase approved by the Kansas Board of Regents for fiscal year 2018 was an average of 3.17%.
- Grants and contracts (federal, state and local, and nongovernmental) overall increased 6.7% or \$331,598 primarily from state and local grants and nongovernmental grants.
- Auxiliary enterprise revenues of the University decreased for Athletics, Assessment, Parking Services and Residential Life while revenues for Student Health Services increased.
- Sales and services of educational departments decreased by approximately \$151,160 or 13.5% from the previous year.

Total nonoperating revenues decreased 2.4% from the previous year from \$39.4 million to \$38.5 million in 2018. Total nonoperating expenses increased significantly due to the reclassification of the Perkins loan program from a restricted net asset to a liability. The following is a brief summary of the significant changes:

- State appropriations increased 0.6% to \$31.0 million from \$30.8 million.
- Investment earnings increased from \$78,467 in 2017 to \$396,924 in 2018.
- Interest expense increased \$542,322 over the prior year.
- Other Federal grants and contracts increased \$246,272 or 4.0% from the prior year. Assets not fully depreciated were removed from fixed assets, resulting in a net loss of \$15,223 during 2018.

In summary, total revenues, nonoperating revenues and other revenues decreased by \$2.9 million for a total of \$89.2 million. The composition of these revenues is displayed in the following graph:



**EMPORIA STATE UNIVERSITY**

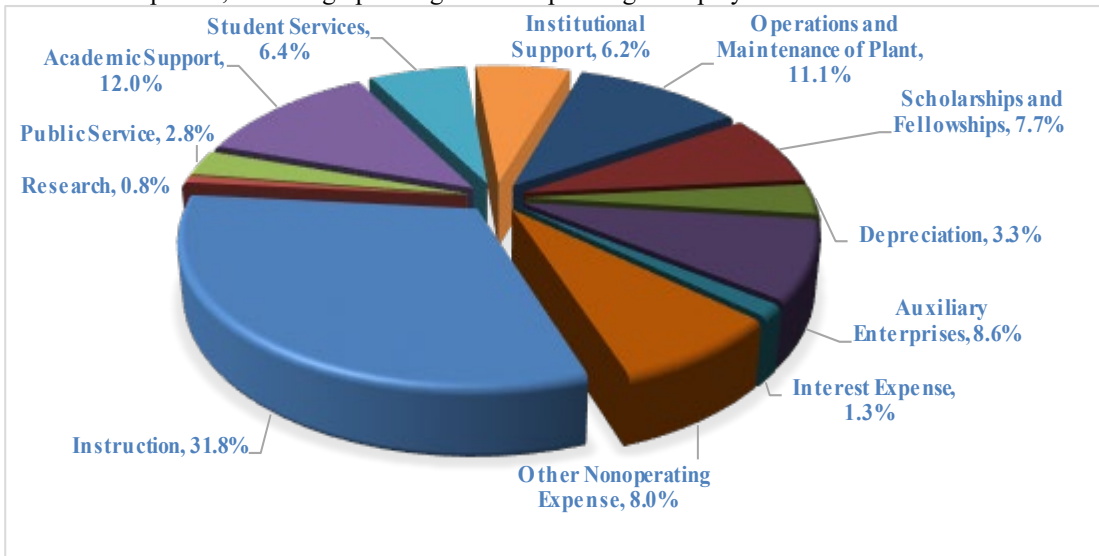
**MANAGEMENT’S DISCUSSION AND ANALYSIS  
June 30, 2018 and 2017**

**Expenses**

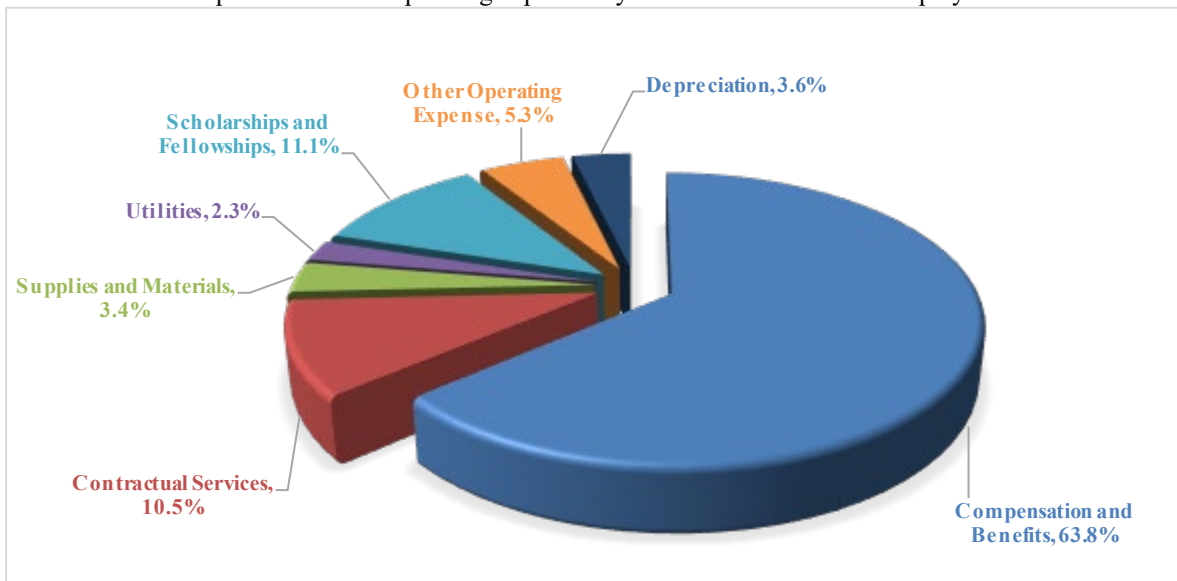
Operating and nonoperating expenses were \$96.6 million for the 2018 fiscal year. This was an increase over the previous year of \$10.2 million or 11.8%. The following is a brief summary of the significant changes:

- Instruction and academic support combined increased \$288,774 or approximately .7% from 2017 to 2018. Scholarships to students increased \$470,901 or approximately 6.7% from 2017 to 2018.
- Research and public service expenses increased \$499,879 for 17% in 2018.
- Institutional support decreased \$291,627 or 4.6% from 2017 to 2018.
- Expenses for the operations and maintenance of plant increased \$1,309,381 or approximately 13.9% from 2017 to 2018.
- Student services decreased \$89,296 or 1.4% from 2017 to 2018.
- The increase in depreciation expense of \$7,980 in 2018.

The composition of total expenses, including operating and nonoperating is displayed below:



The composition of total operating expenses by natural classification is displayed below:



# EMPORIA STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2018 and 2017

### Extraordinary Items

The University did not have any special and extraordinary items in 2018 or 2017.

### Endowment Expenses Paid On Behalf of University

The Foundation is an independent, not-for-profit organization whose primary mission is to raise funds for the University and to provide direct and indirect support to the University that is not entirely reflected in the University's Statements of Revenues, Expenses and Changes in Net Position. Expense items paid on behalf of the University by the Foundation include expenses such as salaries, construction, equipment, books, supplies and travel. During the year ended June 30, 2018, and June 30, 2017, the Foundation made payments to the University of \$1,911,676 and \$1,924,414 respectively.

### Net Position

Net Position decreased by \$8,028,383 from \$76,681,434 in 2017 to \$68,653,051 in 2018 primarily due to the reclassification of the Perkins loan program.

### STATEMENTS OF CASH FLOWS

The Statements of Cash Flows present 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 provided by operating activities includes tuition and fees, grant and contract revenues, sales and services of educational activities and auxiliary enterprises. Cash flows from operating activities will always be negative since GASB requires state appropriations to be reported as cash flows from noncapital financing activities. Cash used in operating activities includes payments to employees and suppliers.

Cash provided by noncapital financing includes state appropriations and the receipt and disbursement of the federal direct student loan program and the PELL program. Cash used in capital and related financing activities represents proceeds from debt, the principal and interest payments toward debt, capital appropriations and grants, and the purchase and construction of capital assets. Cash provided by investing activities includes purchases and sales of investments as well as investment income earnings and losses realized.

The following is a condensed Statement of Cash Flows for the years ended June 30, 2018 and 2017:

The overall net increase in cash of \$3.6 million is due primarily to the bond proceeds on hand and not invested for payment of constructions costs for the next 90 days. The change in operating activities from the prior year was an increase of \$2.3 million; the change in noncapital financing activities was a decrease of \$3.8 million; and the change over prior year from capital financing activities was an increase of \$28.4 million with a decrease in investing activities of \$26.4 million due to bond proceeds for the construction and remodeling of the residence halls. Proceeds not required immediately were invested in the Kansas Municipal Investment Pool.

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Net Cash Provided (Used) by:		
Operating activities	\$ (31,681,215)	\$ (33,943,015)
Noncapital financing activities	35,115,745	38,962,887
Capital and related financing activities	26,437,629	(1,986,435)
Investing activities	<u>(26,282,866)</u>	<u>78,467</u>
Net Increase (Decrease) in Cash	3,589,293	3,111,904
Beginning Cash and Cash Equivalents Balances	<u>28,691,885</u>	<u>25,579,981</u>
Ending Cash and Cash Equivalents Balances	<u>\$ 32,281,178</u>	<u>\$ 28,691,885</u>



# EMPORIA STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2018 and 2017

### CAPITAL ASSETS

The University continues to invest in capital with many projects in progress nearing completion at the end of the fiscal year. Detailed information regarding capital asset additions, retirements and depreciation is available in Note 5 of the financial statements.

The following is a brief summary of the projects in progress or completed by the end of the current fiscal year:

- Renovated spaces in the science hall for forensic science program;
- Parking lot improvements;
- White Library improvements;
- Completed new roof on the science hall; and
- Began construction on new residence hall.

### DEBT ADMINISTRATION

At June 30, 2018, the University had \$45.8 million in debt outstanding. New debt of \$36,075,000 was issued in FY 2018, with a majority of the funding to be used for the construction and remodel of residence halls and part for refinancing of prior debt issuances that yielded present value savings of approximately \$445,000.

The University paid \$898,752 in principal and interest payments related to all outstanding revenue bonds in 2018. The Series B, 2001, Recreation Facility Bonds and the Series F, 2005, Residence Hall Bonds were refunded in the amounts of \$795,000 and \$5,235,000 respectively.

The bonds have been assigned a rating of "A-/Stable" by Standard & Poor's Ratings Services. The University bonds have been assigned a rating of "A2" with stable outlook by Moody's Investors Service. An upgrade in the ratings can be achieved with growth in cash and investments, continued improvement in enrollment and operating margins, and no material increases in debt in the near term. More detailed information about the University's noncurrent liabilities is available in Notes 8, 9, 10 and 11 to the financial statements.

### ECONOMIC OUTLOOK

The economic outlook for the State of Kansas was changed in June, 2017 by Moody's Investors Service from negative to stable after the Legislature passed a tax bill that eliminated the tax cut exemptions for business owners and farmers. Moody's characterized the change in policies as a "credit positive" event. As part of the tax bill, the Legislature approved a plan to increase education funding in response to the Supreme Court ruling that education funding was inadequate. These policy changes provided the State with a modest reserve of cash for fiscal year end 2018.

Most economic variables and indicators for the State of Kansas were adjusted slightly upward at the April's Consensus Revenue Estimating Group (Group) meeting. While the U.S. and Kansas economies continue to grow, indicators are estimated to show only modest improvements over the next few years. Concern exists relative to volatility in energy prices, tariffs or possible trade war effects on agricultural commodity prices. The Group increased the overall revenue estimate for FY 2018 and FY 2019 by \$533.8 million.

The State of Kansas provided approximately 34.7% of the total resources for the University during fiscal year 2018. This is up from the 33.4% provided during fiscal year 2017. The fiscal year 2019 state appropriation budget is approved for \$31.6 million.

In managing our budget, the highest priority of the University continues to be serving the needs of our students. Any reductions to the state appropriated amount would have a significant impact on the operations of the University. While no reductions in state appropriations are anticipated at this time, we are also dependent on tuition revenue from enrolled students which comprises 38.4% of our total budget. Enrollment for the academic 2018-2019 year shows a slight increase. A tuition and fee increase of 2.53% was approved for FY 2019.

# Financial Statements and Notes

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**EMPORIA STATE UNIVERSITY**

**STATEMENTS OF NET POSITION**

**June 30, 2018 and 2017**

	University Funds		Component Unit Memorial Union Corporation	
	2018	2017	2018	2017
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 26,556,718	\$ 20,553,022	\$ 1,415,268	\$ 1,173,708
Restricted cash and cash equivalents	5,724,460	8,138,863	0	0
Restricted Investments	17,872,037	0	0	0
Accounts receivable, net	2,418,236	2,598,073	245,051	211,697
Appropriation receivable	3,956,243	3,263,377	0	0
Interest receivable	60,356	5,378	0	0
Loans to students, net - current portion	3,026,044	3,261,167	0	0
Due from ESU Foundation	375,479	131,089	0	0
Due from Memorial Union	187,516	75,090	0	0
Prepaid expenses	0	0	19,726	14,192
<b>Total Current Assets</b>	<b>60,177,089</b>	<b>38,026,059</b>	<b>1,680,045</b>	<b>1,399,597</b>
<b>Noncurrent Assets</b>				
Restricted investments	8,980,000	227,225	580,000	750,000
Loans to students, net	1,728,419	2,049,255	0	0
Capital assets, net	76,640,999	74,333,702	897,086	1,007,929
<b>Total Noncurrent Assets</b>	<b>87,349,418</b>	<b>76,610,182</b>	<b>1,477,086</b>	<b>1,757,929</b>
<b>Total Assets</b>	<b>147,526,507</b>	<b>114,636,241</b>	<b>3,157,131</b>	<b>3,157,526</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
OPEB outflows	108,518	0	0	0
Pension contributions	928,913	928,978	0	0
Deferred pension outflows	1,080,568	1,441,859	0	0
<b>Total Deferred Outflows</b>	<b>2,117,999</b>	<b>2,370,837</b>	<b>0</b>	<b>0</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	5,647,277	3,783,974	108,302	130,348
Other liabilities	472,810	79,778	0	0
Accrued compensated absences - current	1,727,686	1,720,895	39,921	40,269
Unearned revenue	2,044,423	1,863,199	59,674	89,512
Perkins federal capital contribution - current	821,369	0	0	0
Bonds payable - current	1,365,000	1,325,000	0	0
Unamortized bond premium/discount, current	102,263	(2,653)	0	0
Due to ESU Foundation	111,335	111,358	0	0
Due to Memorial Union	94,655	0	0	0
Due to related parties	0	0	94,531	75,090
Deposits held in custody for others	704,830	945,176	9,389	11,925
<b>Total Current Liabilities</b>	<b>13,091,648</b>	<b>9,826,727</b>	<b>311,817</b>	<b>347,144</b>

The accompanying notes are an integral part of these statements.

**EMPORIA STATE UNIVERSITY**

**STATEMENTS OF NET POSITION**

**June 30, 2018 and 2017**

	<b>University Funds</b>		<b>Component Unit Memorial Union Corporation</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>LIABILITIES - continued</b>				
<b>Noncurrent Liabilities, Net of Current Portion</b>				
Accrued compensated absences	\$ 331,104	\$ 227,545	\$ 0	\$ 0
Accrued other postemployment benefits	627,476	0	0	0
Net pension liability	12,486,678	13,634,315	0	0
Perkins federal capital contribution	6,087,470	0	0	0
Bonds payable	44,405,000	15,310,000	0	0
Unamortized bond premium/discount, noncurrent	<u>1,881,557</u>	<u>(14,743)</u>	<u>0</u>	<u>0</u>
Total Noncurrent Liabilities	<u>65,819,285</u>	<u>29,157,117</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>78,910,933</u>	<u>38,983,844</u>	<u>311,817</u>	<u>347,144</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
OPEB inflows	10,938	0	0	0
Deferred pension inflows	<u>2,069,584</u>	<u>1,341,800</u>	<u>0</u>	<u>0</u>
Total Deferred Inflows	<u>2,080,522</u>	<u>1,341,800</u>	<u>0</u>	<u>0</u>
<b>NET POSITION</b>				
<b>Net investment in capital assets</b>	30,870,999	57,698,702	897,086	1,007,930
<b>Restricted for expendable</b>				
Capital	26,136,116	3,750,196	0	0
Loans	754,123	6,324,670	0	0
Debt service	181,905	963,825	0	0
Other	0	0	423,539	312,695
<b>Unrestricted</b>	<u>10,709,908</u>	<u>7,944,041</u>	<u>1,524,689</u>	<u>1,489,757</u>
Total Net Position	<u>\$ 68,653,051</u>	<u>\$ 76,681,434</u>	<u>\$ 2,845,314</u>	<u>\$ 2,810,382</u>

The accompanying notes are an integral part of these statements.

# EMPORIA STATE UNIVERSITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION Years Ended June 30, 2018 and 2017

	University Funds		Component Unit Memorial Union Corporation	
	2018	2017	2018	2017
<b>Operating Revenues</b>				
Tuition and fees (net of scholarship allowances of \$4,650,634 and \$4,427,222)	\$ 34,495,033	\$ 35,711,175	\$ 0	\$ 0
Federal grants and contracts	1,854,340	1,864,059	0	0
State and local grants and contracts	1,034,709	888,174	0	0
Nongovernmental grants and contracts	2,425,390	2,230,608	0	0
Sales and services of educational departments	972,155	1,123,315	0	0
Auxiliary enterprises				
Athletics	3,138,271	3,430,207	0	0
Assessment	1,436	1,567	0	0
Parking services	248,721	258,711	0	0
Residential life	4,181,492	4,352,379	0	0
Student health services	801,551	798,534	0	0
Student unions	0	0	3,339,664	3,642,470
Interest earned on loans to students	128,157	105,346	0	0
<b>Total Operating Revenues</b>	<b>49,281,255</b>	<b>50,764,075</b>	<b>3,339,664</b>	<b>3,642,470</b>
<b>Operating Expenses</b>				
Education and General				
Instruction	30,767,865	31,056,865	0	0
Research	733,056	404,551	0	0
Public service	2,702,197	2,530,823	0	0
Academic support	11,639,408	11,061,634	0	0
Student services	6,180,754	6,270,050	0	0
Institutional support	6,007,745	6,299,372	0	0
Operations and maintenance of plant	10,712,840	9,403,459	0	0
Scholarships and fellowships	7,463,142	6,992,241	0	0
Depreciation	3,209,994	3,202,014	136,846	141,225
Auxiliary Enterprises				
Athletics	5,191,668	5,142,698	0	0
Assessment	986	2,200	0	0
Parking services	195,084	190,652	0	0
Residential life	2,125,991	2,076,583	0	0
Student health services	749,877	764,349	0	0
Student union	0	0	3,177,076	3,068,186
<b>Total Operating Expenses</b>	<b>87,680,607</b>	<b>85,397,491</b>	<b>3,313,922</b>	<b>3,209,411</b>
<b>Operating Income (Loss)</b>	<b>(38,399,352)</b>	<b>(34,633,416)</b>	<b>25,742</b>	<b>433,059</b>
<b>Nonoperating Revenues (Expenses)</b>				
State appropriations	30,967,221	30,776,348	0	0
Investment income	396,924	78,467	9,027	1,524
Interest expense	(1,263,975)	(721,653)	0	0
Other Federal grants and contracts	6,416,984	6,170,712	0	0
Other nonoperating revenue (expenses), net	(306,473)	2,414,612	0	0
Perkins capital to federal government	(7,349,451)	0	0	0
Transfer to state	0	(70,407)	0	0
Gain/(loss) on assets	(15,223)	(151,494)	163	(612)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>28,846,007</b>	<b>38,496,585</b>	<b>9,190</b>	<b>912</b>

The accompanying notes are an integral part of these statements.

**EMPORIA STATE UNIVERSITY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Years Ended June 30, 2018 and 2017**

	<b>University Funds</b>		<b>Component Unit</b>	
	<b>2018</b>	<b>2017</b>	<b>Memorial Union Corporation 2018</b>	<b>2017</b>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Income (Loss) Before Other Revenues	\$ (9,553,345)	\$ 3,863,169	\$ 34,932	\$ 433,971
<b>Other Revenues</b>				
Capital appropriations	<u>2,113,125</u>	<u>1,932,800</u>	<u>0</u>	<u>0</u>
Increase (Decrease) in Net Position	<u>(7,440,220)</u>	<u>5,795,969</u>	<u>34,932</u>	<u>433,971</u>
<b>Net Position</b>				
Net Position, Beginning of Year	76,681,434	70,885,465	2,810,382	2,376,411
Restatement - GASB 75	<u>(588,163)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Position Restated, Beginning of Year	<u>76,093,271</u>	<u>70,885,465</u>	<u>2,810,382</u>	<u>2,376,411</u>
Net Position, End of Year	<u>\$ 68,653,051</u>	<u>\$ 76,681,434</u>	<u>\$ 2,845,314</u>	<u>\$ 2,810,382</u>

The accompanying notes are an integral part of these statements.

**EMPORIA STATE UNIVERSITY**  
**COMPONENT UNIT**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2018 and 2017**

	<b>Emporia State University Foundation, Inc.</b>	
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,070,218	\$ 782,653
Other assets	153,589	173,176
Mortgages receivable	281,519	289,608
Investments	92,777,633	88,168,460
Contributions receivable, net	6,368,597	7,372,217
Beneficial interests in trusts	9,472,602	9,158,357
Capital assets, net	<u>1,543,448</u>	<u>1,620,687</u>
 Total Assets	 <u>\$ 111,667,606</u>	 <u>\$ 107,565,158</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 432,155	\$ 209,447
Accrued expenses	187,489	169,093
Annuity and trust obligations	<u>1,234,410</u>	<u>1,284,566</u>
 Total Liabilities	 <u>1,854,054</u>	 <u>1,663,106</u>
 <b>Net Assets</b>		
Restricted nonexpendable		
Permanently restricted	67,209,946	64,458,976
Restricted for expendable		
Temporarily restricted	34,943,432	34,224,741
Unrestricted	<u>7,660,174</u>	<u>7,218,335</u>
 Total Net Assets	 <u>109,813,552</u>	 <u>105,902,052</u>
 Total Liabilities and Net Assets	 <u>\$ 111,667,606</u>	 <u>\$ 107,565,158</u>

The accompanying notes are an integral part of these statements.

**EMPORIA STATE UNIVERSITY**

**COMPONENT UNIT  
STATEMENTS OF ACTIVITIES  
Years Ended June 30, 2018 and 2017**

	<b>Emporia State University Foundation, Inc.</b>	
	<b>2018</b>	<b>2017</b>
<b>Revenues, Gains and Other Support</b>		
Contributions	\$ 6,820,881	\$ 7,839,928
Interest and dividends	1,512,464	1,405,762
Net realized gains	1,768,040	3,963,636
Net unrealized gains (losses)	37,477	1,459,884
Limited partnership investment return	1,947,103	1,918,217
Change in beneficial interest in trusts	328,827	452,920
Loss on annuity and trust obligations	(56,891)	(53,767)
Other	46,664	83,465
	<hr/>	<hr/>
Total Revenues, Gains and Other Support	12,404,565	17,070,045
	<hr/>	<hr/>
<b>Expenses and Losses</b>		
Program	6,029,921	6,652,238
Management and general	1,216,847	1,291,058
Fundraising	1,246,297	1,208,845
	<hr/>	<hr/>
Total Expenses and Losses	8,493,065	9,152,141
	<hr/>	<hr/>
<b>Change in Net Assets</b>	3,911,500	7,917,904
	<hr/>	<hr/>
Net Assets, Beginning of Year	105,902,052	97,984,148
	<hr/>	<hr/>
Net Assets, End of Year	\$ <u>109,813,552</u>	\$ <u>105,902,052</u>

The accompanying notes are an integral part of these statements.



**EMPORIA STATE UNIVERSITY**

**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2018 and 2017**

	University Funds		Component Unit Memorial Union Corporation	
	2018	2017	2018	2017
<b>Cash Flows From Operating Activities</b>				
Tuition and fees	\$ 34,771,699	\$ 35,764,259	\$ 0	\$ 0
Grants and contracts	5,155,840	4,818,085	0	0
Sales and services of educational activities	1,049,320	1,094,332	0	0
Other operating income	128,157	105,346	0	0
Auxiliary enterprises:				
Athletics	3,138,271	3,430,207	0	0
Assessment	1,436	1,567	0	0
Parking services	247,481	259,503	0	0
Residential life	4,150,180	4,362,170	0	0
Student health services	802,017	800,723	0	0
Student union	0	0	3,234,400	3,541,215
Payments to suppliers	(14,059,149)	(15,734,864)	(3,146,027)	(3,126,740)
Payments to utilities	(2,006,862)	(2,014,020)	0	0
Compensation and benefits	(55,910,288)	(57,631,280)	0	0
Payments for scholarships and fellowships	(9,705,276)	(9,263,704)	0	0
Loans issued to students and employees	(523,914)	(844,199)	0	0
Collection of loans to students and employees	1,079,873	908,860	0	0
Net Cash Provided by (Used in) Operating Activities	<u>(31,681,215)</u>	<u>(33,943,015)</u>	<u>88,373</u>	<u>414,475</u>
<b>Cash Flows From Noncapital Financing Activities</b>				
State appropriations	30,967,221	30,776,348	0	0
Transfer to State	0	(70,407)	0	0
Other nonoperating revenues (expenses), net	(1,587,502)	2,290,102	0	0
Deposits held in custody for others	(240,346)	(203,868)	0	0
Other Federal grants and contracts	6,416,984	6,170,712	0	0
Perkins Fund capital repayment	(440,612)	0	0	0
Federal family education loan receipts	25,732,382	25,576,505	0	0
Federal family education loan disbursements	(25,732,382)	(25,576,505)	0	0
Net Cash Provided by Noncapital Financing Activities	<u>35,115,745</u>	<u>38,962,887</u>	<u>0</u>	<u>0</u>
<b>Cash Flows From Capital Financing Activities</b>				
Proceeds from sale of capital assets	0	0	162	2,900
Capital appropriations	2,113,125	1,932,800	0	0
Purchases of capital assets	(5,547,737)	(1,920,235)	(26,002)	(145,187)
Refunded bond proceeds	6,030,000	0	0	0
Bond proceeds and premium	32,028,820	0	0	0
Principal paid on capital debt and refunded bonds	(6,922,604)	(1,280,000)	0	0
Interest paid on capital debt and refunded bonds	(1,263,975)	(719,000)	0	0
Net Cash Provided by (Used in) Capital Financing Activities	<u>26,437,629</u>	<u>(1,986,435)</u>	<u>(25,840)</u>	<u>(142,287)</u>
<b>Cash Flows From Investing Activities</b>				
Purchase of investments	(26,624,812)	0	170,000	(750,000)
Investment income	341,946	78,467	9,027	1,524
Net Cash Provided by (Used in) Investing Activities	<u>(26,282,866)</u>	<u>78,467</u>	<u>179,027</u>	<u>(748,476)</u>

The accompanying notes are an integral part of these statements.

**EMPORIA STATE UNIVERSITY**

**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2018 and 2017**

	<b>University Funds</b>		<b>Component Unit</b>	
	<b>2018</b>	<b>2017</b>	<b>Memorial Union Corporation</b>	<b>2017</b>
Net Increase (Decrease) in				
Cash and Cash Equivalents	\$ 3,589,293	\$ 3,111,904	\$ 241,560	\$ (476,288)
Cash and Cash Equivalents, Beginning of Year	<u>28,691,885</u>	<u>25,579,981</u>	<u>1,173,708</u>	<u>1,649,996</u>
Cash and Cash Equivalents, End of Year	<u>\$ 32,281,178</u>	<u>\$ 28,691,885</u>	<u>\$ 1,415,268</u>	<u>\$ 1,173,708</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities</b>				
Operating income (loss)	\$ (38,399,352)	\$ (34,633,416)	\$ 25,742	\$ 433,059
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization expense	3,209,994	3,202,014	136,846	141,225
(Gain) loss on sale of assets	15,223	151,494	0	612
Change in deferred outflows related to pensions and OPEB	252,838	(1,228,708)	0	0
Change in deferred inflows related to pensions and OPEB	738,722	100,730	0	0
In-kind bookstore rent revenue	0	0	(29,838)	(30,556)
Changes in assets and liabilities (Increase)/decrease in				
Accounts receivables, net	179,837	(380,407)	(33,354)	(56,509)
Loans to students, net	555,959	64,661	0	0
Due from ESU Foundation	(244,390)	(101,915)	0	0
Due from Memorial Union	(112,426)	4,187	0	0
Prepaid expenses and other assets	0	0	(5,534)	101
Increase/(decrease) in				
Accounts payable and accrued liabilities	1,863,303	(568,891)	(12,766)	(46,253)
Other liabilities	393,032	(113,603)	(7,169)	0
Unearned revenue	181,224	306,986	0	0
Accrued compensated absences	110,350	61	(348)	(13,224)
Accrued other postemployment benefits	627,476	(60,364)	0	0
Pension liability	(1,147,637)	(685,843)	0	0
Due to related parties	<u>94,632</u>	<u>(1)</u>	<u>14,794</u>	<u>(13,980)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (31,681,215)</u>	<u>\$ (33,943,015)</u>	<u>\$ 88,373</u>	<u>\$ 414,475</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</b>				
Cash and cash equivalents	\$ 26,556,718	\$ 20,553,022	\$ 1,415,268	\$ 1,173,708
Restricted cash and cash equivalents	<u>5,724,460</u>	<u>8,138,863</u>	<u>0</u>	<u>0</u>
Cash and Cash Equivalents, End of Year	<u>\$ 32,281,178</u>	<u>\$ 28,691,885</u>	<u>\$ 1,415,268</u>	<u>\$ 1,173,708</u>
<b>Supplemental Disclosures</b>				
Non-cash investing and financing transactions				
Property and equipment acquired through provision of rent	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,198</u>

The accompanying notes are an integral part of these statements.

**EMPORIA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 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.** The University is a comprehensive Regents University providing undergraduate and graduate education in a variety of academic programs that primarily serve residents of Kansas. The University is accredited by the Higher Learning Commission and 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 audited financial statements of the State of Kansas.

The University is grouped into four major colleges/schools; the School of Business, the Teachers College, the College of Liberal Arts and Sciences, and the School of Library and Information Management. The University, located in Emporia, Kansas, has an undergraduate enrollment of approximately 3,569 and a graduate enrollment of approximately 2,227.

**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 discretely presented component unit: The Memorial Union Corporation. The audited financial statements and notes can be obtained from the Memorial Union Administrative Offices.

While the Foundation is a legally separate entity and the University does not appoint a voting majority of the Foundation's governing body, the Foundation is considered a component unit of the University. Emporia State University has made the decision to include the financial activity and balances of the Foundation after the financial statements of the University. The audited financial statements and notes can be obtained from the Emporia State University Foundation, Inc. and can also be located on-line at [www.emporia.edu/foundation/audit-reports.html](http://www.emporia.edu/foundation/audit-reports.html).

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 Statements of Revenues, Expenses and Changes in Net Position, and 2) balances on the Statements 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 Statements of Cash Flows, the University considers all highly liquid investments, whether restricted or not, with an original maturity of three months or less to be cash equivalents. At certain times, some of the University's component units maintain cash balances in excess of FDIC limits. Management has evaluated the financial stability of these financial institutions and feels the risk to the component units is minimal.

**Investments.** The University accounts for its investments at fair value. Changes in unrealized gain or unrealized loss on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses and Changes in Net Position.

- GASB Statement No. 72, *Fair Value Measurement and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under GASB 72 are described as follows:

**EMPORIA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University and Component Units have the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the University's and Component Units' own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the University's and the Component Units' own data.

When available, quoted prices are used to determine fair value by the University and Component Units. When quoted prices in active markets are available, investments are classified with Level 1 of the fair value hierarchy. The University's and Component Units' Level 1 investments primarily consist of investments in mutual funds, cash equivalents and equity securities.

**Receivables.** Accounts receivable consist of tuition and fees charged to students, auxiliary enterprise services provided to students, faculty and staff and sales and services of the University. Accounts receivable also include amounts due from the Federal government, state and local governments, and 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. Current year state appropriations not received from the State until after year end are recorded as Appropriation receivable.

**Inventories.** Inventories have decreased significantly; therefore, inventory items have been recorded as an expense as the items are purchased.

**Noncurrent Investments.** Investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the Statements of Net Position.

**Capital Assets.** Capital assets are recorded at cost at the date of acquisition, or their estimated acquisition 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 of \$5,000 or more and an estimated useful life 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 is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets: 40 years for buildings; 25 years for infrastructure and land improvements; 8 years for equipment; 5 years for vehicles and 3 years for information processing and computer systems. Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service.

**Unearned Revenue.** Unearned revenues include amounts received for tuition and fees prior to the end of the fiscal year but relate to the subsequent account period for the summer term.

**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 Statements of Net Position and as an expense in the Statements of Revenues, Expenses and Changes in Net Position.

**EMPORIA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

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

**Noncurrent Liabilities.** Noncurrent liabilities include principal amounts of revenue bonds payable, capital lease obligations with contractual maturities greater than one year and estimated amounts for accrued compensated absences, pensions and other postemployment benefits that will not be paid within the next fiscal year.

**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 these 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.

**OPEB.** For the year ended June 30, 2018, the University implemented the provisions of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to the OPEB plan, and OPEB expense, an actuarial valuation was completed and the OPEB liability was measured at June 30, 2017. As the OPEB plan was measured at June 30, 2017, the current year contributions to the Plan by the University are recorded as deferred outflows.

**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 related to 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 the net investment in capital assets.

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

*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 governing board 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).

**Classification of Revenues.** The University has classified its revenues as either operating or nonoperating 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 departments and auxiliary enterprises, 3) most federal, state and local grants and contracts, and 4) interest on institutional student loans.

*Nonoperating revenues:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating 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.

**EMPORIA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**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 Statements 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 nonoperating 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.

**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 were \$32,281,178 and \$28,691,885 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 law are any funds maintained in the University's imprest fund, organizational safekeeping, revenue bond project and reserve funds and any funds held by external entities on behalf of the University.

Cash balances maintained by the State Treasurer are pooled and are held in a general checking account and other special purpose bank accounts. The available cash balances beyond immediate need are pooled for short-term investment purposes by PMIB and are reported at fair value, based on quoted market prices.

The majority of deposit balances not maintained by the State Treasurer are covered by FDIC or collateralized. The University does not have a formal deposit policy regarding custodial credit risk. However, management has evaluated the financial stability of the financial institution involved and believes the custodial credit risk is minimal.

**Investments.** The amount of Emporia State University's total current investments is \$17,872,037 and noncurrent investments is \$8,980,000 which is administered by the Kansas Municipal Investment Board and represents funds used for the construction and remodel of residence halls.

State statutes govern the University's investment policies. For investments related to the University's bonds, state statutes permit cash balances to be invested as permitted by bond documents and bond covenants. The Kansas Municipal Investment Board manages the University's revenue bond investments. Allowable investments include:

- U.S. Government obligations
- Obligations of government-sponsored agencies
- Federal funds, unsecured certificates of deposit, time deposits and banker's acceptances
- Deposits – fully insured by FDIC
- Certain state or municipal debt obligations
- Certain pre-refunded municipal obligations
- Commercial paper
- Investments in money market funds
- Repurchase agreements
- Stripped securities
- Investments in the Municipal Investment Pool Fund
- Investment agreements
- Guaranteed investment contracts

**EMPORIA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

**NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS – continued**

State statutes also govern the investment policies of the PMIB. The primary objectives are to attain safety, liquidity and yield. Allowable investments for State pooled moneys not held in Kansas financial institutions are as follows:

- Direct obligations of, or obligations that are insured as to principal and interest by, the U.S. Government or any direct agency thereof, with maturities up to four years
- Obligations and securities of United States sponsored enterprises that under federal law may be accepted as security for public funds. Moneys available for investments shall not be invested in mortgage-backed securities of such enterprises, which include the Government National Mortgage Association
- Repurchase agreements with Kansas banks or with primary government securities dealers
- Interfund loans to various State agencies as mandated by the Kansas Legislature limited to not more than the lesser of 10 percent or \$80,000,000 of total investments
- Certain Kansas agency and IMPACT Act projects and bonds
- Linked deposit loans for agricultural production not to exceed \$55,000,000
- High grade commercial paper

The Finance Committee of the Foundation Board of Trustees oversees investments in the Foundation's investment programs. The Finance Committee develops guidelines and procedures for investment programs in accordance with the policies established by the Executive Committee.

The Foundation's investment program is designed for investing endowed funds and other types of funds with similar long-term objectives. These funds are collectively invested in a diversified long-term portfolio that is professionally managed by firms chosen by the Foundation for their expertise in specialized portfolio management. Funds participating in the long-term investment portfolio receive regular distributions that are available for immediate spending in accordance with the Foundation's established spending policy.

The Executive Committee as well as the Finance Committee of the Foundation oversee the investments. Per the Foundation's policy, investments are limited to money market funds, U.S. Treasury obligations (Bills, Notes, Bonds), U.S. Government Agency obligations, corporate obligations rated 'A-' or better, and stocks sold on major international exchanges such as NYSE, ASE and NASDAQ. Asset allocation targets are reviewed quarterly by the Finance Committee.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal investment policy that leverages investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

PMIB minimizes interest rate risk structuring the investment portfolio so that securities mature to meet cash requirement for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities.

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The University holds investments that may have credit risk since the underlying securities may include securities other than those that take the form of U.S. Treasuries or obligations explicitly guaranteed by the U.S. Government. The investments are unrated and certain investments have an underlying collateral agreement.

**EMPORIA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**

**NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS – continued**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of the investments that are in the possession of an outside party. Custodial credit risk should not be confused with market risk, which is the risk that the market value of a security may decline. The University’s investment securities are exposed to custodial credit risk if the securities are uninsured and unregistered and held by the counterparty, or by its trust department or agent but not in the University’s name. The University does not have a formal investment policy that addresses custodial credit risk. However, the University’s custodial credit risk is estimated to be minimal based on the expressed investment policies of PMIB, KDFA and the Foundation.

Concentration of credit risk is the risk of loss attributed to the magnitude of the University’s investment in a single issuer that exceeds 5 percent or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are excluded from this requirement. The University does not have a formal policy regarding the concentration of credit risk. However, management has evaluated the financial stability of the financial institutions involved and believes the credit risk is minimal.

**NOTE 3 – ACCOUNTS RECEIVABLE**

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

	<u>2018</u>	<u>2017</u>
Student tuition and fees	\$ 3,647,499	\$ 3,612,841
Employees and students	37,201	39,376
Auxiliary enterprises	674,294	602,223
Federal, state, and private grants and contracts	563,256	600,397
Other operating activities	<u>366,656</u>	<u>435,803</u>
	5,288,906	5,290,640
Less allowance for doubtful accounts	<u>2,870,670</u>	<u>2,692,567</u>
Net Accounts Receivable	<u>\$ 2,418,236</u>	<u>\$ 2,598,073</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 and 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. Historically, the federal government reimburses the University for amounts cancelled under these provisions. For 2018 and 2017, the University did not receive this reimbursement.

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 and 2017, the allowance for uncollectible loans was estimated to be \$1,743,276 and \$1,674,565 respectively.



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**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Capital Assets</b>				
<b>(Not depreciated)</b>				
Land and improvements	\$ 959,140	\$ 0	\$ 0	\$ 959,140
Construction in progress	1,449,419	4,399,434	339,004	5,509,849
<b>(Depreciated)</b>				
Buildings and improvements	116,025,335	985,328	0	117,010,663
Equipment and furnishings	8,197,931	200,857	138,235	8,260,553
Vehicles	1,149,684	60,592	75,762	1,134,514
Infrastructure	8,918,672	225,308	0	9,143,980
<b>Total Capital Assets</b>	<u>136,700,181</u>	<u>5,871,519</u>	<u>553,001</u>	<u>142,018,699</u>
<b>Less Accumulated Depreciation</b>				
Buildings and improvements	50,898,710	2,255,463	0	53,154,173
Equipment and furnishings	6,304,363	532,879	123,012	6,714,230
Vehicles	863,870	92,689	75,761	880,798
Infrastructure	4,299,536	328,963	0	4,628,499
<b>Total Accumulated Depreciation</b>	<u>62,366,479</u>	<u>3,209,994</u>	<u>198,773</u>	<u>65,377,700</u>
<b>Capital Assets, Net</b>	<u>\$ 74,333,702</u>	<u>\$ 2,661,525</u>	<u>\$ 354,228</u>	<u>\$ 76,640,999</u>

Capital asset activity for the year ended June 30, 2017 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Capital Assets</b>				
<b>(Not depreciated)</b>				
Land and improvements	\$ 959,140	\$ 0	\$ 0	\$ 959,140
Construction in progress	2,307,315	1,546,215	2,404,111	1,449,419
<b>(Depreciated)</b>				
Buildings and improvements	115,106,866	1,206,578	288,109	116,025,335
Equipment and furnishings	8,179,265	189,710	171,044	8,197,931
Vehicles	1,198,123	20,072	68,511	1,149,684
Infrastructure	7,708,394	1,210,278	0	8,918,672
<b>Total Capital Assets</b>	<u>135,459,103</u>	<u>4,172,853</u>	<u>2,931,775</u>	<u>136,700,181</u>
<b>Less Accumulated Depreciation</b>				
Buildings and improvements	48,836,748	2,228,064	166,102	50,898,710
Equipment and furnishings	5,887,613	558,306	141,556	6,304,363
Vehicles	836,416	95,965	68,511	863,870
Infrastructure	3,979,857	319,679	0	4,299,536
<b>Total Accumulated Depreciation</b>	<u>59,540,634</u>	<u>3,202,014</u>	<u>376,169</u>	<u>62,366,479</u>
<b>Capital Assets, Net</b>	<u>\$ 75,918,469</u>	<u>\$ 970,839</u>	<u>\$ 2,555,606</u>	<u>\$ 74,333,702</u>

**EMPORIA STATE UNIVERSITY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

**NOTE 6 – DEPOSITS HELD IN CUSTODY FOR OTHERS**

Deposits held in custody for others consist primarily of student organizations' monies administered by the University. Deposits held in custody for others for year ended June 30, 2018 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Student organizations	\$ 941,580	\$ 6,774,901	\$ 7,013,151	\$ 703,330
Stafford, private and wire loans	<u>3,596</u>	<u>25,730,286</u>	<u>25,732,382</u>	<u>1,500</u>
Total Deposits Held for Others	<u>\$ 945,176</u>	<u>\$ 32,505,187</u>	<u>\$ 32,745,533</u>	<u>\$ 704,830</u>

Deposits held in custody for others for year ended June 30, 2017 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Student organizations	\$ 1,147,544	\$ 6,549,882	\$ 6,755,846	\$ 941,580
Stafford, private and wire loans	<u>1,500</u>	<u>26,383,866</u>	<u>26,381,770</u>	<u>3,596</u>
Total Deposits Held for Others	<u>\$ 1,149,044</u>	<u>\$ 32,933,748</u>	<u>\$ 33,137,616</u>	<u>\$ 945,176</u>

**NOTE 7 – UNEARNED REVENUE**

Unearned revenues consist of summer session tuition and fees. The breakdown of unearned revenues is as follows at June 30:

	<u>2018</u>	<u>2017</u>
Tuition and fees	<u>\$ 2,044,423</u>	<u>\$ 1,863,199</u>

**NOTE 8 – CHANGES IN NONCURRENT LIABILITIES**

Noncurrent liability activity for the year ended June 30, 2018 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 16,635,000	\$ 36,075,000	\$ 6,940,000	\$ 45,770,000	\$ 1,365,000
Premiums	16,105	1,983,820	16,105	1,983,820	102,263
Discounts	(33,501)	33,501	0	0	0
Compensated absences	1,948,379	2,058,790	1,948,379	2,058,790	1,727,686
Net pension liability	13,634,315	0	1,147,637	12,486,678	0
Perkins federal capital contributions	0	6,908,839	0	6,908,839	821,369
Postemployment benefits	<u>0</u>	<u>627,476</u>	<u>0</u>	<u>627,476</u>	<u>0</u>
Total Noncurrent Liabilities	<u>\$ 32,200,298</u>	<u>\$ 47,687,426</u>	<u>\$ 10,052,121</u>	<u>\$ 69,835,603</u>	<u>\$ 4,016,318</u>

**EMPORIA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 – CHANGES IN NONCURRENT LIABILITIES - continued**

Noncurrent liability activity for the year ended June 30, 2017 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	\$ 17,915,000	\$ 0	\$ 1,280,000	\$ 16,635,000	\$ 1,325,000
Premiums	17,393	17,393	18,681	16,105	1,288
Discounts	(37,442)	41,383	37,442	(33,501)	(3,941)
Compensated absences	1,948,379	1,948,440	1,948,379	1,948,440	1,720,895
Net pension liability	14,320,158	0	685,843	13,634,315	0
Postemployment benefits	60,364	0	60,364	0	0
<b>Total Noncurrent Liabilities</b>	<b><u>\$ 34,223,852</u></b>	<b><u>\$ 2,007,216</u></b>	<b><u>\$ 4,030,709</u></b>	<b><u>\$ 32,200,359</u></b>	<b><u>\$ 3,043,242</u></b>

**NOTE 9 – BONDS OUTSTANDING**

Bonds payable as of June 30, 2018 consist of the following:

Kansas Development Finance Authority ESU Projects Revenue Bonds - Series 2017D,  
issued in December 2017 in the original amount of \$36,075,000. Due in annual installments of  
\$695,000 to \$2,195,000 with final maturity on 5/1/2038. Interest ranges from 3.00% to 5.00%. \$35,815,000

Kansas Development Finance Authority Memorial Union Revenue Bonds - Series 2010J,  
issued in June 2010 in the original amount of \$14,765,000. Due in annual installments of  
\$565,000 to \$1,030,000 with final maturity on 4/1/2030. Interest ranges from 0.75% to 4.45%. \$9,955,000

**Total Revenue Bonds Outstanding** **\$45,770,000**

**NOTE 10 – 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>
2019	\$ 1,365,000	\$ 621,985	\$ 1,986,985
2020	2,520,000	1,726,493	4,246,493
2021	2,415,000	1,610,917	4,025,917
2022	2,535,000	1,499,999	4,034,999
2023	2,645,000	1,382,561	4,027,561
2024-2028	13,045,000	5,022,416	18,067,416
2029-2033	9,025,000	2,176,664	11,201,664
2034-2038	10,025,000	1,294,656	11,319,656
2038	2,195,000	68,594	2,263,594
	<b><u>\$ 45,770,000</u></b>	<b><u>\$ 15,404,285</u></b>	<b><u>\$ 61,174,285</u></b>

On December 20, 2017, all outstanding bonds for Kansas Development Finance Authority Student Recreation Facility Revenue Bonds – Series 2001B (2018 to 2020 totaling \$795,000) and Residence Hall Revenue Bonds – Series 2005F (2018 to 2025 totaling \$5,235,000) were refunded with the issue of the Series 2017D bonds. The University completed the refunding to reduce its total debt service payments by \$429,215 over the next nine years to obtain a \$444,864 economic gain.

**EMPORIA STATE UNIVERSITY**  
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**NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES**

As a result of legislation, the University, as an agency of the State 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 is covered by a separate policy for losses of real property and is self-insured relative to workers' compensation, medical and unemployment insurance. These areas include stop-loss provisions that limit the University's exposure.

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.

**NOTE 12 – RETIREMENT PLANS**

**Defined Contribution Plan**

Eligible unclassified employees are required to participate in the Kansas Board of Regents (Regents) defined contribution retirement plan, which was authorized by K.S.A. 74-4925. This defined contribution program is funded through contributions by the University and individual employees. The Regents have selected several companies to provide investment options to participants. Benefits under these plans depend solely on the contributed amounts and the returns earned on the investment of those contributions. All contributions are fully vested with the first contribution.

For the years ended June 30, 2018 and 2017, active members were required by statute to contribute 5.5% and the University to contribute 8.5% of the employees' covered payroll. The University contributed \$2,637,002 and \$2,562,732 for the years ended June 30, 2018 and 2017, respectively and individual employees contributed \$1,692,174 and \$1,648,674 respectively.

Employees may also elect to participate, up to the maximum dollar amount permitted by the Internal Revenue Code, in a voluntary tax-sheltered annuity program. The voluntary plan permits employees to designate a part of their earnings into tax-sheltered investments and thus defer federal and state income taxes on their contributions and the accumulated earnings under the plan. Participation and the level of employee contributions are voluntary. The employer is not required to make contributions to the plan.

**Pension Plan**

*Plan description:* The University participates in the Kansas Public Employees Retirement System (KPERS) which is a body corporate and an instrumentality of the State of Kansas. KPERS is the administrator of a cost-sharing multiple-employer defined benefit pension plan. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the System's website at [www.kpers.org](http://www.kpers.org).

*Benefits provided.* KPERS benefits are established by statute and may only be changed by the Legislature. Members (except Police and Firemen) with ten or more years of credited service, may retire as early as age 55 (Police and Firemen may be age 50 with 20 years of credited service), with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of credited service equal 85 "points" (Police and Firemen normal retirement ages are age 60 with 15 years of credited service, age 55 with 20 years, age 50 with 25 years, or any age with 36 years of service).

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. For all pension groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

**EMPORIA STATE UNIVERSITY**  
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**NOTE 12 – RETIREMENT PLANS– continued**

Member employees choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member'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 disbursed 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. 74-49,210 establish the KPERS member-employee contributions rates. Effective July 1, 2009, KPERS has two benefit structures and contribution rates that depend on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law established the KPERS member-employee contribution rate at 5% of covered salary for Tier 1 member and 6% of covered salary for Tier 2 members through December 31, 2014. On January 1, 2016, 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.

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 1.00% contribution rate for the Death and Disability Program) and the statutory contribution rate was 10.81% for the fiscal year end June 30, 2017 and 12.01% for the fiscal year June 30, 2018. Contributions to the pension plan from the University were \$857,510 and \$855,232 for the years ended June 30, 2018 and 2017, respectively.

Certain classified employees, due to their job types, participate in the Kansas Police and Fireman's Fund (KP&F). Benefit provisions are established by State statute and provide retirement, disability, and death benefits to benefit eligible employees. KP&F issues an annual financial report that includes financial statements and required supplementary information. The report is available upon request from KP&F. Active KP&F members were required by statute to contribute 7.15% for the years ended June 30, 2018 and 2017 and the University was required to contribute 18.99% and 20.38%, respectively, of the employee's covered payroll. The Kansas Legislature establishes, and may amend, active plan members' and the University's contribution rates. Contributions to the pension plan from the University were \$71,403 and \$73,746 for the years ended June 30, 2018 and 2017, respectively.

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

At June 30, 2018 and 2017, the University reported a liability of \$12,486,678 and \$13,634,315, respectively, 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. The University's proportion of the net pension liability was based on the ratio of the University's actual contributions to KPERS, relative to the total employer and nonemployer contributions of the State/School subgroup 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, the University's proportion was .1754%, which was a decrease of .0182% 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 within KPERS was .074815%, which was a .0080% increase from its proportion measured as of June 30, 2016.

**EMPORIA STATE UNIVERSITY**  
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**NOTE 12 – RETIREMENT PLANS– continued**

For the year ended June 30, 2018 and 2017, the University recognized pension expense of \$887,199 and \$1,051,551, respectively. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 33,916	\$ 591,349
Net difference between projected and actual earnings on pension plan investments	278,739	0
Changes in proportion and differences between agency contributions and proportionate share of contributions	162,467	1,459,498
Changes of assumptions	605,446	18,737
ESU's contributions subsequent to measurement	928,913	0
<b>Total</b>	<b>\$ 2,009,481</b>	<b>\$ 2,069,584</b>

\$928,913 reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability 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:

<b>Year Ending June 30,</b>	
<b>2018</b>	\$ (433,064)
<b>2019</b>	(45,218)
<b>2020</b>	(103,138)
<b>2021</b>	(362,485)
<b>2022</b>	(45,111)
	<b>\$ (989,016)</b>

*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, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Inflation	2.75 %
Salary increases	3.50 to 12.0 %, including inflation
Investment rate of return	7.75 % compounded annually, net of investment expense, including price inflation

Mortality rates were based on the RP 2014 Mortality tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Scale MP-2016.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study conducted for the period January 1, 2013 through December 31, 2015. The experience study is dated November 18, 2016.

**EMPORIA STATE UNIVERSITY**  
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**NOTE 12 – RETIREMENT PLANS – continued**

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 as of the most recent experience study, dated November 18, 2016, as provided by the KPERS' investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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>	

*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 was based on member and employer contributions as outlined in the separately issued KPERS financial report.

*Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate.* The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the University's 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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
ESU's proportionate share of the net pension liability	\$ 16,707,464	\$ 12,486,678	\$ 8,927,088

*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 13 – OTHER POSTEMPLOYMENT BENEFIT PLAN (OPEB) LONG-TERM DISABILITY**

**Description.** The University participates in the State's long term disability program which is administered by KPERS. The plan provides long-term disability benefits and life insurance benefits 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.

**EMPORIA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 13 – OTHER POSTEMPLOYMENT BENEFIT PLAN (OPEB) LONG-TERM DISABILITY – continued**

**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 of 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 65<sup>th</sup> 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 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 a 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, there were 218 active members and 12 disabled members were covered by the benefit terms.

*Total OPEB Liability.* The University’s total OPEB liability of \$627,476 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 periods included in the measurement, unless otherwise noted:

Price inflation	2.75 %
Payroll growth	3.00 %
Salary increases, including inflation	3.50 to 10.0 %
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 to June 30, 2016. Other demographic assumptions are set to be consistent with the actuarial assumptions reflected in the December 31, 2016 KPERS pension valuation.



**EMPORIA STATE UNIVERSITY**  
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**NOTE 13 – OTHER POSTEMPLOYMENT BENEFIT PLAN (OPEB) LONG-TERM DISABILITY – continued**

The following table presents the components of the University’s annual OPEB cost for the year and changes in the University’s net OPEB liability.

Net OPEB, July 1, 2017	\$	681,603
Current year changes:		
Service cost		32,481
Interest		19,030
Effect of assumptions change or inputs		(12,198)
Benefit payments		<u>(93,440)</u>
Decrease in net OPEB obligation		<u>(54,127)</u>
Net OPEB obligation July 1, 2018	\$	<u><u>627,476</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 2.58% 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:

	<u>1% Decrease</u> <u>(2.58%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(3.58%)</u>	<u>1% Increase</u> <u>(4.58%)</u>
Total OPEB liability	\$ 643,998	\$ 627,476	\$ 610,872

*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 \$50,251. At June 30, 2018 the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows</u> <u>of Resources</u>	<u>Deferred Inflows</u> <u>of Resources</u>
Difference between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	0	10,938
Benefit payments subsequent to the measurement date	<u>108,518</u>	<u>0</u>
<b>Total</b>	<u><u>\$ 108,518</u></u>	<u><u>\$ 10,938</u></u>

**EMPORIA STATE UNIVERSITY**

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**NOTE 13 – OTHER POSTEMPLOYMENT BENEFIT PLAN (OPEB) LONG-TERM DISABILITY – continued**

The deferred outflow of resources related to the benefit payments subsequent to the measuring date totaling \$108,518 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 resources and deferred inflows of resources related to OPEB will be recognized in the OPEB expense as follows:

<b>Year Ending June 30,</b>	
<b>2018</b>	\$ (1,260)
<b>2019</b>	(1,260)
<b>2020</b>	(1,260)
<b>2021</b>	(1,260)
<b>2022</b>	(1,260)
<b>Thereafter</b>	<u>(4,638)</u>
	<u>\$ (10,938)</u>

*Prior period adjustment.* The implementation of GASB 75 resulted in a prior year increase of \$93,440 to deferred outflows of resources, a \$681,603 increase to the total OPEB liability and a \$588,163 decrease to net position as of July 1, 2017.

**NOTE 14 – OPERATING EXPENSES BY NATURAL CLASSIFICATION**

The University's operating expenses by natural classification for the years ended June 30, 2018 and June 30, 2017 follows:

	<b>Compensation and Benefits</b>	<b>Contractual Services</b>	<b>Supplies and Materials</b>	<b>Utilities</b>	<b>Scholarships and Fellowships</b>	<b>Other Operating Expense</b>	<b>Depreciation</b>	<b>Fiscal Year 2018 Total</b>	<b>Fiscal Year 2017 Total</b>
<b>Educational and General</b>									
Instruction	\$28,046,748	\$1,234,550	\$536,234	\$0	\$345,036	\$605,297	\$0	\$30,767,865	\$31,056,865
Research	425,462	76,254	102,143	0	46,496	82,701	0	733,056	404,551
Public service	1,651,424	679,949	169,418	0	145,101	56,305	0	2,702,197	2,530,823
Academic support	7,521,629	3,169,210	182,685	0	64,071	701,813	0	11,639,408	11,061,634
Student services	4,388,875	1,183,848	419,308	0	45,549	143,174	0	6,180,754	6,270,050
Institutional support	4,583,414	1,295,667	84,248	0	10,661	33,755	0	6,007,745	6,299,372
Operations and maintenance of plant	5,188,467	451,534	449,550	1,672,683	0	2,950,606	0	10,712,840	9,403,459
Scholarships & fellowships	0	0	0	0	7,463,142	0	0	7,463,142	6,992,241
Depreciation	0	0	0	0	0	0	3,209,994	3,209,994	3,202,014
<b>Auxiliary Enterprises</b>									
Athletics	2,205,174	713,289	671,861	0	1,574,526	26,818	0	5,191,668	5,142,698
Bureau of Educational Measurements	0	336	650	0	0	0	0	986	2,200
Parking	149,657	32,943	7,355	-	0	5,129	0	195,084	190,652
Residential Life	1,237,151	276,054	255,837	334,179	0	22,770	0	2,125,991	2,076,583
Student Health	571,571	80,326	88,033	0	0	9,947	0	749,877	764,349
<b>Total Operating Expenses FY 2018</b>	<u>\$55,969,572</u>	<u>\$9,193,960</u>	<u>\$2,967,322</u>	<u>\$2,006,862</u>	<u>\$9,694,582</u>	<u>\$4,638,315</u>	<u>\$3,209,994</u>	<u>\$87,680,607</u>	
<b>Total Operating Expenses FY 2017</b>	<u>\$55,233,711</u>	<u>\$10,557,096</u>	<u>\$2,176,096</u>	<u>\$2,014,020</u>	<u>\$9,253,010</u>	<u>\$2,961,544</u>	<u>\$3,202,014</u>		<u>\$ 85,397,491</u>

**EMPORIA STATE UNIVERSITY**  
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**NOTE 15 – COMPONENT UNITS**

The following disclosure meets the requirements in GASB Statement 14, *The Financial Reporting Entity*, paragraph 61 and GASB Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, paragraph 128. It also complies with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which is an amendment of GASB Statement No. 14.

**Memorial Union Corporation**

Memorial Union Corporation (the Union) provides services to the students, faculty and other parties associated with Emporia State University. It is a component unit of the University. These services include campus dining services, sponsorship and support of student organizations, programs for University students, leasing space to University support functions including the bookstore, and scheduling of campus facilities for non-university functions.

The Union prepares its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958. Under FASB ASC 958, the Union is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

A contract between the Union and Sodexo Management, Inc. (Sodexo) provides for the operation of all dining services within the Union. The agreement calls for Sodexo to provide contract board meals to the Union at a contracted price and to remit a commission to the Union on cash sales generated by Sodexo. The Union's board of directors approved a ten-year agreement with Sodexo on July 8, 2009 with five options to extend the contract for an additional year. The agreement is effective until May 17, 2019. Meal plan rates are reviewed and adjusted annually based on mutual agreement between Sodexo and the Union. An addendum to the contract stating the agreed upon rates is prepared annually. Contract board meals, the largest single source of revenue for the Union, provided \$2,407,518 in revenues which accounted for 71.9% of total revenues.

**Emporia State University Foundation**

Emporia State University Foundation, Inc. (the Foundation) provides scholarships to students and various other types of support to the University and its Alumni. The Foundation is supported primarily through donor contributions. The Foundation is a separately administered organization that is a component unit of Emporia State University and the State of Kansas. The Foundation's financial statements are included in summary form in the State of Kansas' comprehensive annual financial report.

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Alternative investments are valued using the most recent valuation available by the respective external fund manager. The fair value of certain alternative investments, such as the private equity and natural resources limited partnerships, are recorded at net asset value (NAV), as a practical expedient based on the most recent valuations provided by external investment managers, adjusted for cash receipts and disbursements through June 30. The Foundation compares this carrying value to the June 30 investment statements provided by the external investment managers and believes the carrying value of these financial instruments is a reasonable estimate of fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value.

**EMPORIA STATE UNIVERSITY**  
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**NOTE 15 – COMPONENT UNITS – continued**

Investments for the Foundation at June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Cash-unsettled trades	\$ 3,286,668	\$ 0
Money markets accounts	1,405,653	598,457
Certificates of deposit	254,429	460,195
Cash surrender value of life insurance	933,239	864,326
Fixed income mutual funds		
Intermediate-term bond	8,375,197	9,821,338
Other fixed income mutual funds	4,311,318	3,676,306
Equity mutual funds		
Domestic equities	19,049,462	18,026,968
International equities	22,091,913	20,489,752
Other equity mutual funds	4,436,070	2,814,434
U.S. Savings bonds	83,770	83,770
Common trust fixed income funds	0	1,115,587
Hedge funds and fixed income partne:	15,159,971	16,409,874
Real estate and real estate partnershi:	5,304,519	4,999,966
Private equity and natural resources limited partnerships	8,085,424	8,807,487
	<u>\$ 92,777,633</u>	<u>\$ 88,168,460</u>

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

	<b>2018</b>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market accounts	\$ 1,405,653	\$ 1,405,653	\$ 0	\$ 0
Fixed income mutual funds				
Intermediate-term bond	8,375,197	8,375,197	0	0
Other fixed income mutual funds	4,311,318	4,311,318	0	0
Equity mutal funds				
Domestic equities	19,049,462	19,049,462	0	0
International equities	22,091,913	22,091,913	0	0
Other equity mutual funds	4,436,070	4,436,070	0	0
U.S. Savings bonds	83,770	0	83,770	0
Real estate	660,520	0	660,520	0
Total investments	60,413,903	59,669,613	744,290	0
Beneficial interests in trusts	9,472,602	0	286,855	9,185,747
	<u>\$ 69,886,505</u>	<u>\$ 59,669,613</u>	<u>\$ 1,031,145</u>	<u>\$ 9,185,747</u>

**EMPORIA STATE UNIVERSITY**  
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**June 30, 2018 and 2017**

**NOTE 15 – COMPONENT UNITS – continued**

	<b>2017</b>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market accounts	\$ 598,457	\$ 598,457	\$ 0	\$ 0
Fixed income mutual funds				
Intermediate-term bond	9,821,338	9,821,338	0	0
Other fixed income mutual funds	3,676,306	3,676,306	0	0
Equity mutual funds				
Domestic equities	18,026,968	18,026,968	0	0
International equities	20,489,752	20,489,752	0	0
Other equity mutual funds	2,814,434	2,814,434	0	0
U.S. Savings bonds	83,770	0	83,770	0
Real estate	<u>641,080</u>	<u>0</u>	<u>641,080</u>	<u>0</u>
Total investments	56,152,105	55,427,255	724,850	0
Beneficial interests in trusts	<u>9,158,357</u>	<u>0</u>	<u>284,333</u>	<u>8,874,024</u>
	<u>\$ 65,310,462</u>	<u>\$ 55,427,255</u>	<u>\$ 1,009,183</u>	<u>\$ 8,874,024</u>

Investments included in the fair value hierarchy above reconcile to the statements of financial position as follows:

	<u>2018</u>	<u>2017</u>
Investments recorded at		
Fair value and included above	\$ 60,413,903	\$ 56,152,105
Assets not at fair value	4,474,336	1,324,521
Net asset value	<u>27,889,394</u>	<u>30,691,834</u>
Total investments and beneficial interests in trusts	<u>\$ 92,777,633</u>	<u>\$ 88,168,460</u>

**EMPORIA STATE UNIVERSITY**  
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**June 30, 2018 and 2017**

**Contributions Receivable**

Contributions receivable at June 30, 2018 and 2017 consisted of the following unconditional promises to give discounted at a rate of 5.0% and 4.25%, respectively:

	<b>2018</b>	<b>2017</b>
Due within one year	\$ 1,937,820	\$ 2,108,539
Due in one to five years	4,216,132	4,675,629
Due in more than five years	1,663,654	2,118,250
	7,817,606	8,902,418
Less		
Allowance for uncollectible contributions	269,084	298,281
Unamortized discount	1,179,925	1,231,920
	\$ 6,368,597	\$ 7,372,217

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