

EMPORIA STATE
UNIVERSITY

Annual
Financial Report

FISCAL YEAR 2016

Emporia State University
Emporia, Kansas

Fiscal Year 2016 Annual Financial Report

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Management's Discussion and Analysis

EMPORIA STATE
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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016 and 2015

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. The University has included the Emporia State University Foundation, Inc. (the "Foundation") audited financial statements 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) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements 37 and 38. These standards changed the focus of our financial statements to a comprehensive one-look at the University as a whole as opposed to the traditional presentation of fund groups.

STATEMENTS OF NET POSITION

The Statements of Net Position present the assets, deferred outflows, liabilities, deferred inflows and net position of the University at a point in time (at the end of the fiscal year). Its purpose is to present a financial snapshot of the University. The Statements of Net Position include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting, which is similar to the accounting used by most private sector institutions. Under the accrual basis of accounting, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. 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 further divided into two subcategories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable 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, 2016, were \$112,571,120, an increase of \$2,924,061 or 2.7% compared to \$109,647,059 at June 30, 2015. Capital assets, net of depreciation, comprised 67.4% or \$75,918,469 of the total assets in 2016 as compared to 67.7%, or \$74,266,917 of the total assets in 2015.

EMPORIA STATE UNIVERSITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015**

Total deferred outflows increased \$193,105 due to recording the pension contribution as required by GASB 68.

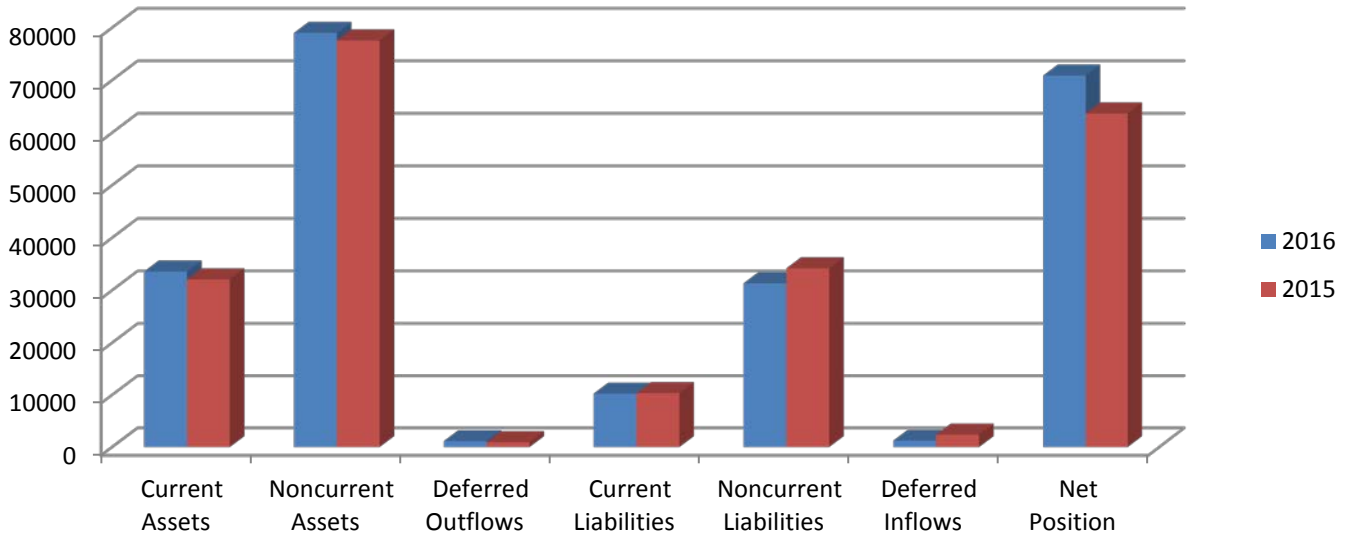
Total liabilities were \$41,586,714 at June 30, 2016, a decrease of \$2,949,790 or 6.6% compared to \$44,536,504 at June 30, 2015. Noncurrent liabilities comprised 75.3% or \$31,329,715 of total liabilities in 2016 as compared to 76.7% or \$34,181,502 of total liabilities in 2015.

Total deferred inflows decreased \$1,155,689 due to recording deferred pension contributions as required by GASB 68.

Total Net Position at June 30, 2016, was \$70,885,465 a \$7,222,645 increase over the previous fiscal year amount of \$63,662,820, or a 11.3% increase in Net Position. The breakout of Net Position is shown below:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Net Position		
Net Investment in Capital Assets	\$ 58,003,469	\$ 55,126,916
Restricted Net Position	11,117,129	11,049,570
Unrestricted Net Position	<u>1,764,867</u>	<u>(2,513,666)</u>
 Total Net Position	 <u>\$ 70,885,465</u>	 <u>\$ 63,662,820</u>

The composition of current and noncurrent assets, deferred outflows, liabilities, deferred inflows and net position is displayed below for both the 2016 and 2015 fiscal year ends (in thousands):



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.

EMPORIA STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2016 and 2015

Revenues

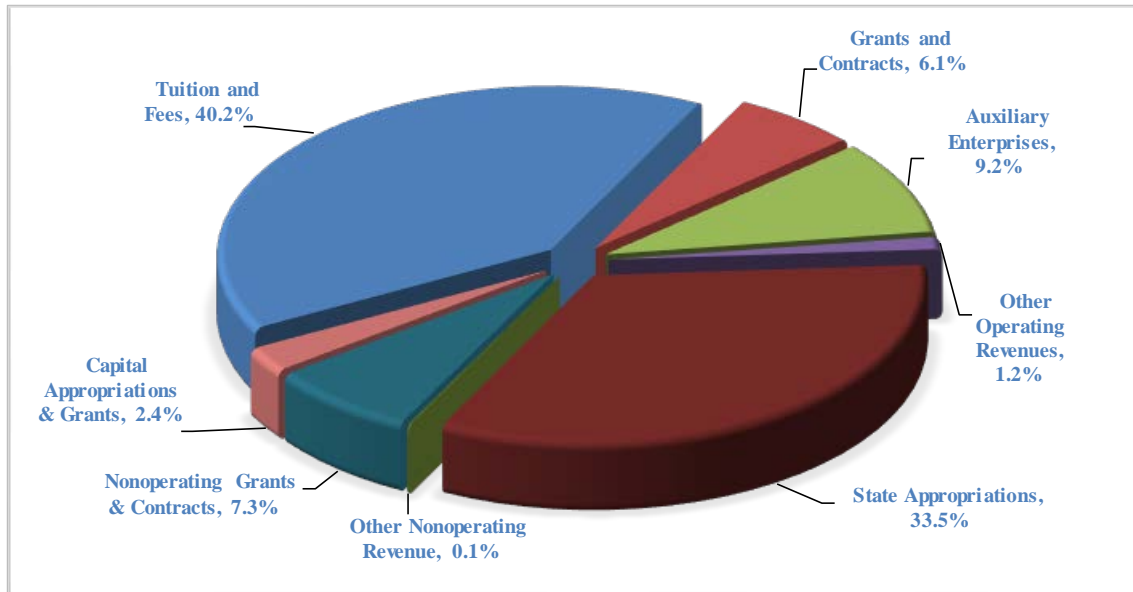
Operating revenues were \$50.6 million for the 2016 fiscal year. This was an increase of \$1,207,728 or 2.4% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student tuition and fee revenues, after scholarship allowances, were \$35.8 million in 2016, compared to \$35.4 million in 2015, an overall increase of 1.4%. This increase is a direct result of an average 3.6% tuition and fees increase approved by the Kansas Board of Regents for fiscal year 2016.
- Grants and contracts (federal, state and local, and nongovernmental) overall increased 16.8% or \$780,760 over the previous year. The increase is attributable to direct recording of expenses that were funded by ESU Foundation.
- Auxiliary enterprise revenues of the University decreased for Athletics, Parking Services, Assessment and Student Health Services while revenues increased for Residential Life.
- Sales and services of educational departments decreased by approximately \$116,564 or 10.8% over the previous year.

Total nonoperating revenues decreased 3.4% from the previous year from \$38.2 million to \$37.0 million in 2016. Total nonoperating expenses remained constant at \$1.5 million for both years. The following is a brief summary of the significant changes:

- State appropriations, the largest single source of revenue at the University, decreased 3.8% from \$31.0 million to \$29.8 million.
- Investment earnings increased from \$35,820 in 2015 to \$78,640 in 2016 due to higher cash balances throughout the year.
- Interest expense decreased \$41,233 or 5.1% decrease over the prior year. As the bonds age, the interest owed is less.
- Other Federal grants and contracts decreased \$478,131 or 6.9% over the prior year. Fully depreciated assets were removed from fixed assets, resulting in a net loss of \$2,704 during 2016.

In summary, total revenues, nonoperating revenues and other revenues decreased by \$4,215 to remain at \$89.7 million. The composition of these revenues is displayed in the following graph:



EMPORIA STATE UNIVERSITY

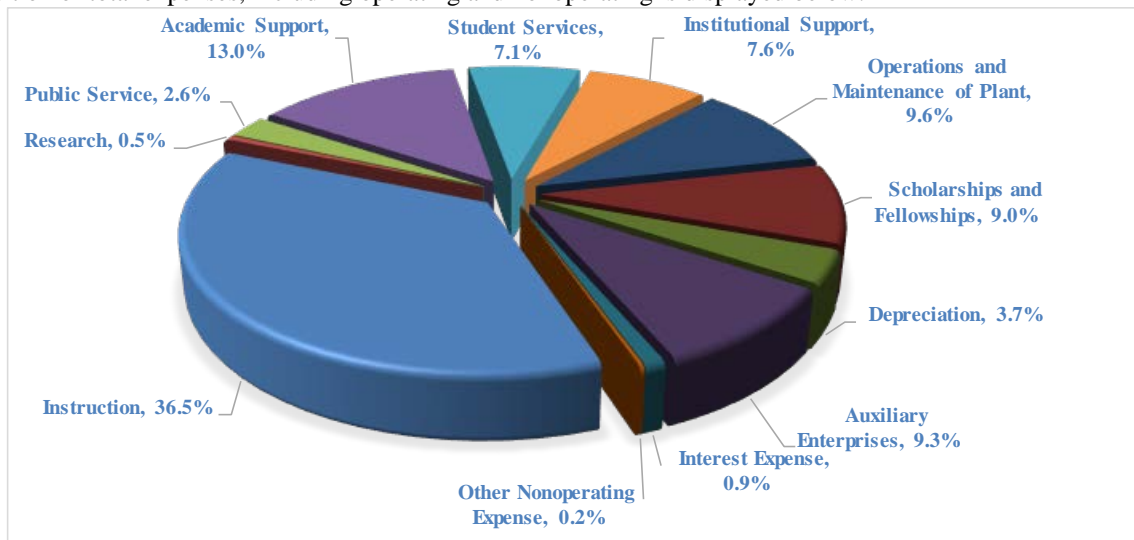
**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016 and 2015**

Expenses

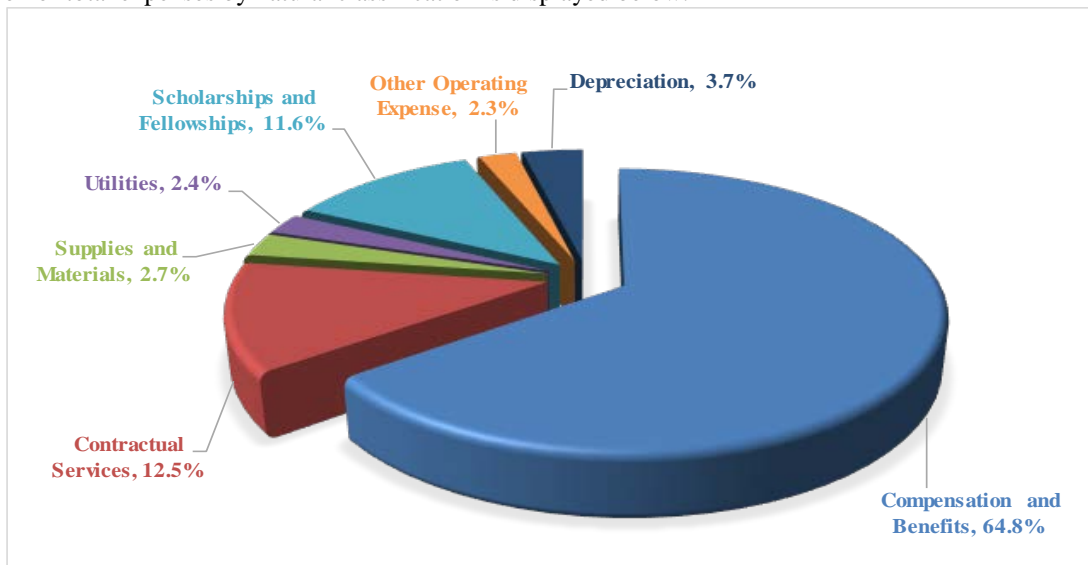
Operating and nonoperating expenses were \$82.5 million for the 2016 fiscal year. This was a decrease over the previous year of \$2.5 million or 3.0%. The following is a brief summary of the significant changes:

- Instruction and academic support combined decreased \$1,602,580 or approximately 3.8% from 2015 to 2016. Scholarships to students increased \$349,773 or approximately 5.0% from 2015 to 2016.
- Research and public service expenses increased \$306,222 for 1.4% in 2016.
- Institutional support decreased \$47,074 or .8% from 2015 to 2016.
- Expenses for the operations and maintenance of plant decreased \$1,094,106 or approximately 12.2% from 2015 to 2016.
- Student support decreased \$678,132 or 10.5% from 2015 to 2016.
- The increase in depreciation expense relates to the newly remodeled residence hall project that was completed and put into service.

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



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



EMPORIA STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2016 and 2015

Extraordinary Items

The University did not have any special and extraordinary items in 2016 or 2015.

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, 2016, and June 30, 2015, the Foundation made payments to the University of \$1,839,277 and \$1,955,126 respectively.

Net Position

Net Position increased by \$7,222,645 from \$63,662,820 in 2015 to \$70,885,465 in 2016.

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, 2016 and 2015:

The overall net increase in cash of \$2.2 million is due primarily to an increase in cash received from operations and less cash paid out to employees. The overall change over prior year from operating activities was a decrease of \$1.5 million and the overall change over prior year from capital financing activities was an increase of \$2.4 million.

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Net Cash Provided (Used) by:		
Operating activities	\$ (29,555,460)	\$ (31,097,035)
Noncapital financing activities	36,182,095	37,161,093
Capital and related financing activities	(4,494,387)	(2,048,853)
Investing activities	78,604	30,478
Net Increase (Decrease) in Cash	<u>2,210,852</u>	<u>4,045,683</u>
Beginning Cash and Cash Equivalents Balances	<u>23,369,129</u>	<u>19,323,446</u>
Ending Cash and Cash Equivalents Balances	<u>\$ 25,579,981</u>	<u>\$ 23,369,129</u>

EMPORIA STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2016 and 2015

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 at the end of the current fiscal year:

- Completion of pedestrian sidewalk on Highland Street;
- Teaching laboratory enhancements primarily for the Forensic Science program;
- Continuing significant renovation to the student residence halls during the fiscal years 2016 and 2015; and
- Welch Stadium turf and track project near completion and the installation of scoreboard.

DEBT ADMINISTRATION

At June 30, 2016, the University had \$17.9 million in debt outstanding. No debt was issued in 2016. Debt was issued for the Memorial Union project in 2010 in the amount of \$14,765,000.

The University paid \$2,001,060 in principal and interest payments related to all outstanding revenue bonds in 2016.

The bonds have been assigned a rating of "A" 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 to "A1" can be achieved once reserves are rebuilt, enrollment and operating margins continue to improve and debt service coverage improves. 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 State of Kansas continues to fall behind the national average for economic growth. Since 2012 when tax initiatives were implemented, the employment in Kansas has risen only 2.6% compared to 6.5% nationally. Kansas' gross domestic product (GDP) grew 4.8% from the end of 2012 through the first quarter of 2016 while the national GDP rose 11.9%. Kansas' bond rating has been downgraded twice, once in 2014 and most recently in July 2016. Lower bond ratings mean that the state will likely have to pay a higher interest rate on future borrowings, raising the cost of infrastructure projects such as school construction and road building.

At the November 2016 meeting of the State of Kansas Consensus Group, revenue projections were adjusted downward 5.5%, or \$345.9 million, from the previous estimate (made in April and subsequently adjusted for legislation enacted during the veto session and special session). The revised estimate of \$5.980 billion represents 1.5 percent below final FY 2016 receipts. The initial estimate for fiscal year 2018 is \$5.536 billion, which is \$443.7 million, or 7.4 percent, below the newly revised FY 2017 figure.

The State of Kansas provided approximately 33.5% of the total resources for the University during fiscal year 2016. This is down from the 34.6% provided during fiscal year 2015. The fiscal year 2017 state appropriation budget is approved for \$30.7 million. It is anticipated that the State of Kansas will be facing additional budget cuts in fiscal year 2017 when the legislature meets in January.

Additional reductions in the budget cannot be estimated at this time in light of the adjusted revenue projections. Nothing definitive has been recommended by the Governor at this time. Additional reductions would have a significant impact on the operations of the University. In managing our budget, the highest priority of the University continues to be to serve the needs of our students.

Enrollment for the academic 2016-2017 year shows a slight decrease as the number of Kansas high school graduates continues to decrease. Additionally, qualified admissions may impact our enrollment numbers. A tuition and fee increase of 4.9% for FY 2017 has offset the reduction of enrollment to reflect an increase in tuition revenue.

Financial Statements and Notes

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EMPORIA STATE UNIVERSITY

STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	University Funds		Component Unit Memorial Union Corporation	
	2016	2015	2016	2015
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 18,424,616	\$ 17,623,109	\$ 1,649,996	\$ 1,385,542
Restricted cash and cash equivalents	7,155,365	5,746,020	0	0
Accounts receivable, net	2,217,666	2,040,077	155,188	198,508
Appropriation receivable	3,138,867	2,755,447	0	0
Interest receivable	5,378	5,342	0	0
Loans to students, net - current portion	2,523,691	2,941,538	0	0
Due from ESU Foundation	29,174	728,242	0	0
Due from Memorial Union	79,277	102,397	0	0
Prepaid expenses	0	133,079	14,293	1,430
Total Current Assets	<u>33,574,034</u>	<u>32,075,251</u>	<u>1,819,477</u>	<u>1,585,480</u>
Noncurrent Assets				
Investments	0	369,628	0	0
Restricted investments	227,225	227,225	0	0
Loans to students, net	2,851,392	2,708,038	0	0
Capital assets, net	<u>75,918,469</u>	<u>74,266,917</u>	<u>1,006,893</u>	<u>1,007,444</u>
Total Noncurrent Assets	<u>78,997,086</u>	<u>77,571,808</u>	<u>1,006,893</u>	<u>1,007,444</u>
TOTAL ASSETS	<u>112,571,120</u>	<u>109,647,059</u>	<u>2,826,370</u>	<u>2,592,924</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension contributions	971,244	921,975	0	0
Deferred pension outflows	<u>170,885</u>	<u>27,049</u>	<u>0</u>	<u>0</u>
TOTAL DEFERRED OUTFLOWS	<u>1,142,129</u>	<u>949,024</u>	<u>0</u>	<u>0</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	4,352,865	4,113,547	182,713	206,331
Other liabilities	193,381	224,046	0	0
Accrued compensated absences - current portion	1,614,137	1,657,683	53,493	49,971
Unearned revenue	1,556,213	1,832,297	118,870	146,422
Revenue bonds payable - current portion	1,280,000	1,225,000	0	0
Due to ESU Foundation	111,359	111,289	0	0
Due to related parties	0	0	79,277	102,397
Due to component unit - state agency	0	133,079	0	0
Deposits held in custody for others	<u>1,149,044</u>	<u>1,058,061</u>	<u>15,606</u>	<u>14,668</u>
Total Current Liabilities	<u>10,256,999</u>	<u>10,355,002</u>	<u>449,959</u>	<u>519,789</u>
Noncurrent Liabilities, Net of Current Portion				
Accrued compensated absences	334,242	295,474	0	0
Accrued other postemployment benefits	60,364	2,937,000	0	0
Net pension liability	14,320,158	13,056,730	0	0
Revenue bonds payable	<u>16,614,951</u>	<u>17,892,298</u>	<u>0</u>	<u>0</u>
Total Noncurrent Liabilities	<u>31,329,715</u>	<u>34,181,502</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	<u>41,586,714</u>	<u>44,536,504</u>	<u>449,959</u>	<u>519,789</u>

The accompanying notes are an integral part of these statements.

EMPORIA STATE UNIVERSITY

STATEMENTS OF NET POSITION

June 30, 2016 and 2015

	University Funds		Component Unit Memorial Union Corporation	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred pension inflows	\$ 1,241,070	\$ 2,396,759	\$ 0	\$ 0
TOTAL DEFERRED INFLOWS	<u>1,241,070</u>	<u>2,396,759</u>	<u>0</u>	<u>0</u>
NET POSITION				
Net investment in capital assets	58,003,469	55,126,916	1,006,894	1,007,445
Restricted for nonexpendable				
Scholarships and fellowships	0	369,628	0	0
Restricted for expendable				
Capital	3,763,361	3,206,009	0	0
Loans	6,389,363	6,510,734	0	0
Debt service	964,405	963,199	0	0
Other	0	0	317,243	316,692
Unrestricted	<u>1,764,867</u>	<u>(2,513,666)</u>	<u>1,052,274</u>	<u>748,998</u>
TOTAL NET POSITION	<u>\$ 70,885,465</u>	<u>\$ 63,662,820</u>	<u>\$ 2,376,411</u>	<u>\$ 2,073,135</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, 2016 and 2015

	University Funds		Component Unit	
	2016	2015	Memorial Union Corporation	2015
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Operating Revenues				
Tuition and fees (net of scholarship allowances of \$4,587,135 and \$4,345,218)	\$ 35,846,655	\$ 35,357,020	\$ 0	\$ 0
Federal grants and contracts	2,173,452	1,751,683	0	0
State and local grants and contracts	860,677	1,033,384	0	0
Nongovernmental grants and contracts	2,402,906	1,871,208	0	0
Sales and services of educational departments	963,940	1,080,504	0	0
Auxiliary enterprises				
Athletics	2,923,523	2,946,117	0	0
Assessment	1,571	3,109	0	0
Parking services	247,714	286,012	0	0
Residential life	4,251,089	4,087,488	0	0
Student health services	798,915	817,513	0	0
Student unions	0	0	3,573,277	3,593,639
Interest earned on loans to students	107,497	136,173	0	0
Total Operating Revenues	<u>50,577,939</u>	<u>49,370,211</u>	<u>3,573,277</u>	<u>3,593,639</u>
Operating Expenses				
Education and General				
Instruction	29,885,487	30,947,294	0	0
Research	411,185	246,937	0	0
Public service	2,103,052	1,961,078	0	0
Academic support	10,637,368	11,178,141	0	0
Student services	5,769,393	6,447,525	0	0
Institutional support	6,203,183	6,250,257	0	0
Operations and maintenance of plant	7,881,696	8,975,802	0	0
Scholarships and fellowships	7,389,510	7,039,737	0	0
Depreciation	3,024,172	2,818,830	133,550	128,672
Auxiliary Enterprises				
Athletics	4,830,724	4,736,301	0	0
Assessment	15,253	4,884	0	0
Parking services	162,673	258,260	0	0
Residential life	1,982,899	1,886,020	0	0
Student health services	648,631	713,249	0	0
Student union	0	0	3,137,616	3,119,682
Total Operating Expenses	<u>80,945,226</u>	<u>83,464,315</u>	<u>3,271,166</u>	<u>3,248,354</u>
Operating Income (Loss)	<u>(30,367,287)</u>	<u>(34,094,104)</u>	<u>302,111</u>	<u>345,285</u>
Nonoperating Revenues (Expenses)				
State appropriations	29,813,098	30,992,540	0	0
Investment income	78,640	35,820	1,115	757
Interest expense	(766,888)	(805,468)	0	0
Other Federal grants and contracts	6,463,549	6,941,680	0	0
Other nonoperating revenue (expenses), net	(101,336)	(374,072)	0	0
Transfer to state	(70,407)	(70,407)	0	0
Gain/(loss) on assets	(2,704)	(21,014)	50	1,459
Net amortization of (discount)/premium	0	(2,653)	0	0
Net Nonoperating Revenues (Expenses)	<u>35,413,952</u>	<u>36,696,426</u>	<u>1,165</u>	<u>2,216</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, 2016 and 2015

	University Funds		Component Unit	
	2016	2015	Memorial Union Corporation	2015
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Income (Loss) Before Other Revenues	\$ 5,046,665	\$ 2,602,322	\$ 303,276	\$ 347,501
Other Revenues				
Capital appropriations	2,175,980	2,114,000	0	0
Unrealized gain (loss) to permanent endowments	<u>0</u>	<u>(7,831)</u>	<u>0</u>	<u>0</u>
Total Other Revenue	<u>2,175,980</u>	<u>2,106,169</u>	<u>0</u>	<u>0</u>
Increase in Net Position	<u>7,222,645</u>	<u>4,708,491</u>	<u>303,276</u>	<u>347,501</u>
Net Position				
Net Position, Beginning of Year	63,662,820	73,339,980	2,073,135	1,725,634
Restatement -- other	0	212,081	0	0
Restatement -- change summer revenue reporting	0	(77,217)	0	0
Restatement -- GASB 68 pension costs	<u>0</u>	<u>(14,520,515)</u>	<u>0</u>	<u>0</u>
Net Position Restated, Beginning of Year	<u>63,662,820</u>	<u>58,954,329</u>	<u>2,073,135</u>	<u>1,725,634</u>
Net Position, End of Year	<u>\$ 70,885,465</u>	<u>\$ 63,662,820</u>	<u>\$ 2,376,411</u>	<u>\$ 2,073,135</u>

The accompanying notes are an integral part of these statements.

EMPORIA STATE UNIVERSITY

**COMPONENT UNIT
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015**

	Emporia State University Foundation, Inc.	
	2016	2015
ASSETS		
Cash and cash equivalents	\$ 538,499	\$ 1,523,009
Other assets	205,409	200,364
Mortgages receivable	298,925	319,777
Investments	80,430,310	81,098,064
Contributions receivable, net	7,796,619	6,330,479
Beneficial interests in trusts	8,720,151	9,284,112
Capital assets, net	<u>1,696,880</u>	<u>1,753,556</u>
TOTAL ASSETS	<u>99,686,793</u>	<u>100,509,361</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	135,981	781,124
Accrued expenses	218,921	238,350
Annuity and trust obligations	<u>1,347,743</u>	<u>1,401,738</u>
Total liabilities	<u>1,702,645</u>	<u>2,421,212</u>
Net Assets		
Restricted nonexpendable		
Permanently restricted	61,356,649	58,652,724
Restricted for expendable		
Temporarily restricted	30,543,755	33,386,700
Unrestricted	<u>6,083,744</u>	<u>6,048,725</u>
Total net assets	<u>97,984,148</u>	<u>98,088,149</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 99,686,793</u>	<u>\$ 100,509,361</u>

The accompanying notes are an integral part of these statements.

EMPORIA STATE UNIVERSITY
COMPONENT UNIT
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2016 and 2015

	Emporia State University Foundation, Inc.	
	2016	2015
Revenues, Gains and Other Support		
Contributions	\$ 9,202,459	\$ 10,439,851
Interest and dividends	1,322,250	1,403,514
Net realized gains	1,391,038	1,176,540
Net unrealized gains (losses)	(3,511,579)	(2,352,754)
Limited partnership investment return	1,423,873	1,819,519
Change in beneficial interest in trusts	(597,455)	805,128
Loss on annuity and trust obligations	(38,250)	(57,009)
Other	64,568	106,671
	<u>9,256,904</u>	<u>13,341,460</u>
Expenses and Losses		
Program	6,816,196	6,769,964
Management and general	1,245,408	1,465,311
Fundraising	1,299,301	1,491,746
	<u>9,360,905</u>	<u>9,727,021</u>
Change in Net Assets	(104,001)	3,614,439
Net Assets, Beginning of Year	<u>98,088,149</u>	<u>94,473,710</u>
Net Assets, End of Year	<u>\$ 97,984,148</u>	<u>\$ 98,088,149</u>

The accompanying notes are an integral part of these statements.

EMPORIA STATE UNIVERSITY

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015

	University Funds		Component Unit Memorial Union Corporation	
	2016	2015	2016	2015
Cash Flows From Operating Activities				
Tuition and fees	\$ 35,632,057	\$ 34,349,577	\$ 0	\$ 0
Grants and contracts	6,010,555	3,911,400	0	0
Sales and services of educational activities	923,657	1,037,348	0	0
Other operating income	107,497	136,173	0	0
Auxiliary enterprises:				
Athletics	2,923,523	2,946,117	0	0
Assessment	1,571	3,109	0	0
Parking services	268,522	266,269	0	0
Residential life	4,201,131	4,052,185	0	0
Student health services	798,203	815,342	0	0
Student union	0	0	3,522,698	3,618,013
Payments to suppliers	(14,375,815)	(12,969,162)	(3,130,790)	(3,196,123)
Payments to utilities	(1,953,064)	(1,983,078)	0	0
Compensation and benefits	(54,959,613)	(55,284,694)	0	0
Payments for scholarships and fellowships	(9,412,560)	(8,911,383)	0	0
Loans issued to students and employees	(901,430)	(939,143)	0	0
Collection of loans to students and employees	1,180,306	1,472,905	0	0
Net Cash Provided by (Used in) Operating Activities	(29,555,460)	(31,097,035)	391,908	421,890
Cash Flows From Noncapital Financing Activities				
State appropriations	29,429,678	30,557,207	0	0
Transfer to State	(70,407)	(70,407)	0	0
Other nonoperating revenues (expenses), net	268,292	(374,072)	0	0
Deposits held in custody for others	90,983	106,685	0	0
Other Federal grants and contracts	6,463,549	6,941,680	0	0
Federal family education loan receipts	25,506,864	27,409,596	0	0
Federal family education loan disbursements	(25,506,864)	(27,409,596)	0	0
Net Cash Provided by Noncapital Financing Activities	36,182,095	37,161,093	0	0
Cash Flows From Capital Financing Activities				
Proceeds from sale of capital assets	0	337,100	50	1,631
Capital appropriations	2,175,980	2,114,000	0	0
Purchases of capital assets	(4,678,479)	(2,473,793)	(128,619)	(52,054)
Principal paid on capital debt and leases	(1,225,000)	(1,210,000)	0	0
Interest paid on capital debt and leases	(766,888)	(816,160)	0	0
Net Cash (Used in) Capital Financing Activities	(4,494,387)	(2,048,853)	(128,569)	(50,423)
Cash Flows From Investing Activities				
Investment income	78,604	30,478	1,115	757
Net Cash Provided by Investing Activities	78,604	30,478	1,115	757
Net Increase in Cash and Cash Equivalents	2,210,852	4,045,683	264,454	372,224
Cash and Cash Equivalents, Beginning of Year	23,369,129	19,323,446	1,385,542	1,013,318
Cash and Cash Equivalents, End of Year	\$ 25,579,981	\$ 23,369,129	\$ 1,649,996	\$ 1,385,542

The accompanying notes are an integral part of these statements.

EMPORIA STATE UNIVERSITY

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015

	University Funds		Component Unit	
	2016	2015	Memorial Union Corporation	2015
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Reconciliation of Net Operating Revenues				
(Expenses) to Net Cash Provided by				
(Used in) Operating Activities				
Operating income (loss)	\$ (30,367,287)	\$ (34,094,104)	\$ 302,111	\$ 345,285
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization expense	3,024,172	2,821,483	133,550	128,672
Unrealized (gain) loss on endowment	0	7,831	0	0
(Gain) loss on sale of assets	2,704	21,014	(50)	(1,459)
Change in deferred outflows related to pensions	(193,105)	0		
Change in deferred inflows related to pensions	(1,155,689)	0		
In-kind bookstore rent revenue	0	0	(31,882)	(31,503)
Changes in assets and liabilities				
(Increase)/decrease in				
Accounts receivables, net	(177,589)	(82,851)	43,320	33,082
Loans to students, net	274,493	497,424	0	0
Due from ESU Foundation	699,068	(654,160)	0	0
Due from Memorial Union	23,120	(102,397)	0	0
Prepaid expenses and other assets	133,079	1,215,061	(12,863)	6,589
Increase/(decrease) in				
Accounts payable and accrued liabilities	239,318	267,692	(22,680)	(42,601)
Other liabilities	(30,665)	0	0	0
Unearned revenue	(276,084)	(1,110,675)	0	0
Accrued compensated absences	(4,778)	(233,432)	3,522	184
Accrued other postemployment benefits	(2,876,636)	217,000	0	0
Due to other state agency	(133,079)	133,079	0	0
Pension liability	1,263,428	0	0	0
Due to related parties	70	0	(23,120)	(16,359)
Net Cash Provided by (Used in) Operating Activities	<u>\$ (29,555,460)</u>	<u>\$ (31,097,035)</u>	<u>\$ 391,908</u>	<u>\$ 421,890</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position				
Cash and cash equivalents	\$ 18,424,616	\$ 17,623,109	\$ 1,649,996	\$ 1,385,542
Restricted cash and cash equivalents	<u>7,155,365</u>	<u>5,746,020</u>	<u>0</u>	<u>0</u>
Cash and Cash Equivalents, End of Year	<u>\$ 25,579,981</u>	<u>\$ 23,369,129</u>	<u>\$ 1,649,996</u>	<u>\$ 1,385,542</u>
Supplemental Disclosures				
Non-cash investing and financing transactions				
Property and equipment acquired through provision of rent	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,548</u>	<u>\$ 5,548</u>

The accompanying notes are an integral part of these statements.

EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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, a Commission of the North Central Association of Colleges and Schools. The University is governed by the Kansas Board of Regents and is an agency of the State of Kansas. As an agency of the State of Kansas, the University is included in the 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 3,702 and a graduate enrollment of approximately 2,185.

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.

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.

Recent Accounting Pronouncement. 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:

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.

EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 reclassified 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.

Implementation of GASB 72 did not have a significant impact on the financial statements.

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 in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. 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.

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.

Prepaid Expenses. Prepaid expenses consist primarily of prepaid insurance.

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 fair market value at the date of donation, in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost 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 summer school tuition and fees prior to the end of the fiscal year but related to the subsequent accounting period.

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, 2016 and 2015

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 and other postemployment benefits that will not be paid within the next fiscal year.

Pensions. For the year ended June 30, 2015, the University implemented the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kansas Public Employees Retirement System (KPERS) and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For 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.

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

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, 2016 and 2015

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, 2016 and 2015 were \$25,579,981 and \$23,369,129 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 investments is \$227,225 which is administered by the Kansas Development Finance Authority and represents funds used to meet bond reserve requirements.

State statutes govern the University's investment policies. For investments related to the University's revenue bonds, state statutes permit cash balances to be invested as permitted by bond documents and bond covenants. The Kansas Development Finance Authority (KDFA) 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, 2016 and 2015

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.

For revenue bond investments managed by KDFA, due to the tax-exempt status of the bonds, it is generally the practice of KDFA and University management to match reserve fund interest rates to the arbitrage yield on the bonds, and the term of the investments to the maturity of the bonds. For invested loan funds, KDFA generally invests to maximize the interest rate and sets a term of investment based on estimated expenditures, which is generally 3 – 5 years.

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, 2016 and 2015

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>2016</u>	<u>2015</u>
Student tuition and fees	\$ 3,100,296	\$ 2,935,643
Employees and students	40,573	44,956
Auxiliary enterprises	604,844	548,986
Federal, state, and private grants and contracts	488,906	315,594
Other operating activities	<u>363,416</u>	<u>350,114</u>
	4,598,034	4,195,293
Less allowance for doubtful accounts	<u>2,380,367</u>	<u>2,155,216</u>
Net Accounts Receivable	<u>\$ 2,217,666</u>	<u>\$ 2,040,077</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, 2016 and 2015. 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 2016 and 2015, 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, 2016 and 2015, the allowance for uncollectible loans was estimated to be \$1,666,596 and \$1,615,240 respectively.

EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital Assets				
(Not depreciated)				
Land and improvements	\$ 959,140	\$ 0	\$ 0	\$ 959,140
Construction in progress	7,899,947	1,873,329	7,465,961	2,307,315
(Depreciated)				
Buildings and improvements	107,253,646	7,853,220	0	115,106,866
Equipment and furnishings	7,236,890	1,054,327	111,952	8,179,265
Vehicles	980,432	339,800	122,109	1,198,123
Infrastructure	6,684,681	1,023,713	0	7,708,394
Total Capital Assets	<u>131,014,736</u>	<u>12,144,389</u>	<u>7,700,022</u>	<u>135,459,103</u>
Less Accumulated Depreciation				
Buildings and improvements	46,714,707	2,122,040	109,248	48,727,499
Equipment and furnishings	5,450,355	546,507	122,109	5,874,753
Vehicles	888,221	70,304	0	958,525
Infrastructure	3,694,536	285,321	0	3,979,857
Total Accumulated Depreciation	<u>56,747,819</u>	<u>3,024,172</u>	<u>231,357</u>	<u>59,540,634</u>
Capital Assets, Net	<u>\$ 74,266,917</u>	<u>\$ 9,120,217</u>	<u>\$ 7,468,665</u>	<u>\$ 75,918,469</u>

Capital asset activity for the year ended June 30, 2015 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital Assets				
(Not depreciated)				
Land and improvements	\$ 1,072,495	\$ 0	\$ 113,355	\$ 959,140
Construction in progress	6,580,714	1,871,339	552,106	7,899,947
(Depreciated)				
Buildings and improvements	108,315,656	140,063	1,202,073	107,253,646
Equipment and furnishings	10,394,045	457,250	3,614,405	7,236,890
Vehicles	936,636	50,775	6,980	980,431
Infrastructure	6,092,215	592,466	0	6,684,681
Total Capital Assets	<u>133,391,761</u>	<u>3,111,893</u>	<u>5,488,919</u>	<u>131,014,735</u>
Less Accumulated Depreciation				
Buildings and improvements	45,771,743	2,026,268	1,083,304	46,714,707
Equipment and furnishings	8,437,281	502,731	3,489,657	5,450,355
Vehicles	858,369	36,832	6,980	888,221
Infrastructure	3,441,537	252,998	0	3,694,535
Total Accumulated Depreciation	<u>58,508,930</u>	<u>2,818,829</u>	<u>4,579,941</u>	<u>56,747,818</u>
Capital Assets, Net	<u>\$ 74,882,831</u>	<u>\$ 293,064</u>	<u>\$ 908,978</u>	<u>\$ 74,266,917</u>

EMPORIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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, 2016 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Student organizations	\$ 1,054,747	\$ 6,162,878	\$ 6,070,081	\$ 1,147,544
Stafford, private and wire loans	3,314	28,574,087	28,575,901	1,500
Total Deposits Held for Other	<u>\$ 1,058,061</u>	<u>\$ 34,736,965</u>	<u>\$ 34,645,982</u>	<u>\$ 1,149,044</u>

Deposits held in custody for others for year ended June 30, 2015 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Student organizations	\$ 943,033	\$ 7,191,647	\$ 7,079,933	\$ 1,054,747
Stafford, private and wire loans	8,343	30,164,656	30,169,685	3,314
Total Deposits Held for Other	<u>\$ 951,376</u>	<u>\$ 37,356,303</u>	<u>\$ 37,249,618</u>	<u>\$ 1,058,061</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>2016</u>	<u>2015</u>
Tuition and fees	\$ <u>1,556,213</u>	\$ <u>1,832,297</u>

NOTE 8 – CHANGES IN NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2016 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Revenue bonds payable	\$ 19,140,000	\$ 0	\$ 1,225,000	\$ 17,915,000	\$ 1,280,000
Premiums	18,681	17,393	18,681	17,393	0
Discounts	(41,383)	41,383	37,442	(37,442)	0
Compensated absences	1,953,157	1,948,379	1,953,157	1,948,379	1,614,137
Net pension liability	13,056,730	1,263,428	0	14,320,158	0
Postemployment benefits	2,937,000	0	2,876,636	60,364	0
Total Noncurrent Liabilities	<u>\$ 37,064,185</u>	<u>\$ 3,270,583</u>	<u>\$ 6,110,916</u>	<u>\$ 34,223,852</u>	<u>\$ 2,894,137</u>

EMPORIA STATE UNIVERSITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 8 – CHANGES IN NONCURRENT LIABILITIES - continued

Noncurrent liability activity for the year ended June 30, 2015 follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 20,350,000	\$ 0	\$ 1,210,000	\$ 19,140,000	\$ 1,225,000
Premiums	19,970	18,681	19,970	18,681	0
Discounts	0		41,383	(41,383)	0
Compensated absences	2,186,589	1,953,157	2,186,589	1,953,157	1,657,683
Net pension liability	0	13,056,730	0	13,056,730	0
Postemployment benefits	2,720,000	217,000	0	2,937,000	0
Total Noncurrent Liabilities	\$ 25,276,559	\$ 15,245,568	\$ 3,457,942	\$ 37,064,185	\$ 2,882,683

NOTE 9 – REVENUE BONDS OUTSTANDING

Revenue bonds payable as of June 30, 2016 consist of the following:

Kansas Development Finance Authority Student Recreation Facility Revenue Bonds - Series B, 2001 issued on January 15, 2001 in the amount of \$2,805,000. Due in annual installments of \$95,000 to \$215,000 with final maturity on 3/1/2021. Interest ranges from 3.65% to 5.2%.	\$970,000
Kansas Development Finance Authority Residence Hall Revenue Bonds - Series F, 2005 issued on October 5, 2005 in the original amount of \$8,930,000. Due in annual installments of \$350,000 to \$ 685,000 with final maturity on 4/1/2024. Interest ranges from 3.25% to 4.35%.	\$5,710,000
Kansas Development Finance Authority Memorial Union Revenue Bonds - Series J, 2010 issued on June 23, 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%.	<u>\$11,235,000</u>
Total Revenue Bonds Outstanding	<u>\$17,915,000</u>

NOTE 10 – REVENUE BONDS MATURITY SCHEDULE

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

Year Ending June 30,	Principal	Interest	Total
2017	\$ 1,280,000	\$ 731,510	\$ 2,011,510
2018	1,325,000	684,385	2,009,385
2019	1,375,000	634,735	2,009,735
2020	1,425,000	580,905	2,005,905
2021-2025	7,100,000	2,048,923	9,148,923
2026-2030	5,410,000	664,435	6,074,435
	<u>\$ 17,915,000</u>	<u>\$ 5,344,893</u>	<u>\$ 23,259,893</u>

EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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, 2016, 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 \$2,433,979 during fiscal year 2016 and individual employees contributed \$1,563,489.

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), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. Seq. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. KPERs' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERs website at www.kpers.org or by writing to KPERs (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

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

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

EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 12 – RETIREMENT PLANS– continued

Member employees choose one of seven payment options for their monthly retirement benefits. At retirement a member employee may receive a lump-sum payment of up to 50% of the actuarial present value of the member employee's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump-sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. The retirement benefits are 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 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, 2015, Kansas law increased the KPERS member-employee contribution rate to 6% of covered salary for Tier 1 members; however, the Tier 2 member-employee contribution rate remained at 6% of covered salary. Member employee's contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

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 10.91% for both tiers for the fiscal year ended June 30, 2016. Contributions to the pension plan from the University were \$904,950 for the year ended June 30, 2016.

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. For the year ended June 30, 2016, active KP&F members were required by statute to contribute 7.15% and the University to contribute 21.32% 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 \$66,294.

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

At June 30, 2016, the University reported a liability of \$14,320,158 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, which was rolled forward to June 30, 2015. 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, 2015. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2015 the University's proportion was .200174%, which was an increase of .002481% from its proportion measured as of June 30, 2014. As of June 30, 2015 the University's proportion of the total contributions made to the Police and Fire group within KPERS was .063239%, which was .001463% increase from its proportion measured as of June 30, 2014.

EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 12 – RETIREMENT PLANS– continued

For the year ended June 30, 2016, University recognized pension expense of \$893,531. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 4,190	\$ 423,068
Net difference between projected and actual earnings on pension plan investments	0	375,678
Changes in proportion and differences between agency contributions and proportionate share of contributions	166,695	406,884
Changes of assumptions	0	35,440
ESU's contributions subsequent to measurement	<u>971,244</u>	<u>0</u>
Total	\$ <u>1,142,129</u>	\$ <u>1,241,070</u>

\$971,244 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2016	\$ (372,589)
2017	(372,589)
2018	(372,589)
2019	59,683
2020	<u>(12,101)</u>
	\$ <u>(1,070,185)</u>

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study conducted for the three-year period ending December 31, 2012.

EMPORIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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 included in the pension plan’s target asset allocations as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	13%	0.80%
Yield driven	8%	4.20%
Real return	11%	1.70%
Real estate	11%	5.40%
Alternatives	8%	9.40%
Short-term investments	2%	(0.5%)
Total	100%	

Discount rate. The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the University will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of 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 8.00%, 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 (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
ESU's proportionate share of the net pension liability	\$ 18,510,285	\$ 14,320,158	\$ 10,762,177

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

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

EMPORIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 13 – OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (OPEB)

Funding Policy. The University provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 75-6511). Kansas statute, which may be amended by the state legislature, established that participating retirees contribute to the employee group health fund benefits plan, including administrative costs. The University does not pay retiree benefits directly; they are paid implicitly over time through employer subsidization of active premiums that would be lower if retirees were not part of the experience group.

Annual OPEB Cost and Net OPEB Obligation. The University’s annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any Unfunded Actuarial Accrued Liabilities (UAAL) over a period of not to exceed thirty years.

The following table presents the components of the University’s annual OPEB cost for the year, the contribution to the plan, and changes in the University’s net OPEB obligation.

Annual Required Contribution (ARC)	\$ 91,972
Interest on net OPEB obligation	113,075
Adjustment to the ARC	<u>(2,990,052)</u>
Annual OPEB cost	(2,785,005)
Contributions made	<u>(91,631)</u>
Decrease in net OPEB obligation	(2,876,636)
Net OPEB obligation July 1, 2015	<u>2,937,000</u>
Net OPEB obligation July 1, 2016	<u>\$ 60,364</u>

Schedule of Employer Contributions (for fiscal year ended)

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Net Employer Contributions</u>	<u>Percentage Contributed</u>	<u>End of Year Net OPEB Obligation</u>
2013	\$ 495,000	\$ 202,000	41%	\$ 2,459,000
2014	\$ 442,000	\$ 181,000	41%	\$ 2,720,000
2015	402,000	185,000	46%	2,937,000
2016	\$ (2,785,005)	\$ 91,631	46%	\$ 60,364

Funded Status and Funding Progress. As of June 30, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$60,364. The University’s policy is to fund the benefits on a pay as you go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$60,364. The covered payroll (annual payroll of active employees covered by the plan) was \$45,643,757 and the ratio of the UAAL to the covered payroll was .13% which rounds to 0 below.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding progress will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

EMPORIA STATE UNIVERSITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 13 – OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (OPEB) – continued

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
06/30/2013	\$ 0	\$ 4,868,000	\$ 4,868,000	0%	\$ 42,969,000	11%
06/30/2014	\$ 0	\$ 4,452,000	\$ 4,452,000	0%	\$ 42,416,000	10%
06/30/2015	\$ 0	\$ 3,976,000	\$ 3,976,000	0%	\$ 43,395,000	9%
06/30/2016	\$ 0	\$ 60,364	\$ 60,364	0%	\$ 45,643,757	0%

Subsequent Event. The State subsidy expires in December 31, 2016 (except for 10 Bridge Participants). This produced several changes impacting the Unfunded Actuarial Accrued Liability (UAAL).

- The Normal Cost went to \$0
- The Actuarial Accrued Liability includes an adjustment for lagging benefit payments of 8.5% of gross payments. This is not needed in an ongoing valuation, but significant when the subsidy is ending.
- The fiscal 2016 Annual Required Contribution (ARC) was set to the expected benefit payments for that fiscal year.
- The fiscal 2017 ARC will be \$0. Subsequently, the Net OPEB Obligation (NOO) as of June 30, 2016 less the benefit payments, less interest on the NOO should result in an NOO of \$0 as of June 30, 2017. To the extent there is a difference between the benefit payments from expected, this will result in an ARC adjustment.
- The Annual OPEB Cost for 2013 was increased to produce an NOO as of June 30, 2016 that equals the UAAL.
- The NOO for the year ending June 30, 2016 was set to the UAAL.
- The Health Care Reform Excise Tax is not projected to have any impact on the UAAL.

EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 14 – OPERATING EXPENSES BY NATURAL CLASSIFICATION

The University's operating expenses by natural classification for the years ended June 30, 2016 and June 30, 2015 follows:

	Compensation and Benefits	Contractual Services	Supplies and Materials	Utilities	Scholarships and Fellowships	Other Operating Expense	Depreciation	Fiscal Year 2016 Total	Fiscal Year 2015 Total
Educational and General									
Instruction	\$26,988,811	\$1,362,714	\$496,815	\$ -	\$360,561	\$676,586	\$ -	\$29,885,487	\$30,947,294
Research	177,244	154,318	38,952	-	-	40,671	-	411,185	246,937
Public service	1,291,871	586,960	132,764	-	58,333	33,124	-	2,103,052	1,961,078
Academic support	6,823,387	2,873,971	205,224	-	76,038	658,748	-	10,637,368	11,178,141
Student services	3,968,050	1,289,885	427,112	-	28,945	55,401	-	5,769,393	6,447,525
Institutional support	4,378,426	1,705,825	79,017	-	-	39,915	-	6,203,183	6,250,257
Operations and maintenace of plant	5,003,418	498,716	467,099	1,639,174	-	273,289	-	7,881,696	8,975,802
Scholarships & fellowships	-	-	-	-	7,389,510	-	-	7,389,510	7,039,737
Depreciation	-	-	-	-	-	-	3,024,172	3,024,172	2,818,830
Auxiliary Enterprises									
Athletics	1,966,766	1,348,655	14,078	-	1,486,440	14,785	-	4,830,724	4,736,301
Bureau of Educational Measurements	10,515	1,673	1,550	-	-	1,515	-	15,253	4,884
Parking	142,511	12,945	5,936	-	-	1,281	-	162,673	258,260
Residential Life	1,144,978	222,165	266,693	313,890	-	35,173	-	1,982,899	1,886,020
Student Health	505,718	85,739	54,045	-	-	3,129	-	648,631	713,249
Total Operating Expenses FY 2016	\$52,401,695	\$10,143,566	\$2,189,285	\$1,953,064	\$9,399,827	\$1,833,617	\$3,024,172	\$80,945,226	
Total Operating Expenses FY 2015	\$55,319,811	\$9,446,317	\$2,328,100	\$1,983,078	\$8,934,810	\$2,633,369	\$2,818,830		\$83,464,315

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 new 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 \$2,668,756 in revenues which accounted for 75.7% of total revenues.

EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 15 – COMPONENT UNITS - continued

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.

Investments

Investments for the Foundation at June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Money markets accounts	\$ 2,951,722	\$ 342,298
Certificates of deposit	455,997	452,602
Cash surrender value of life insurance	910,738	883,266
Fixed income mutual funds		
Intermediate-term bond	6,734,698	7,052,182
Other fixed income mutual funds	2,979,043	3,255,539
Equity mutual funds		
Domestic equities	16,476,540	14,261,210
International equities	16,119,094	16,941,377
Other equity mutual funds	2,667,521	3,116,804
U.S. Savings bonds	80,003	76,739
Common trust fixed income funds	1,130,809	1,048,489
Hedge funds and fixed income partnersl	15,955,145	19,666,896
Real estate and real estate partnerships	4,754,051	4,117,870
Private equity and natural resources limited partnerships	<u>9,214,949</u>	<u>9,882,792</u>
	<u>\$ 80,430,310</u>	<u>\$ 81,098,064</u>

EMPORIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 15 – COMPONENT UNITS - continued

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, 2016 and 2015:

	2016			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market accounts	\$ 2,951,722	\$ 2,951,722	\$	\$
Fixed income mutual funds				
Intermediate-term bond	6,734,698	6,734,698		
Other fixed income mutual funds	2,979,043	2,979,043		
Equity mutual funds				
Domestic equities	16,476,540	16,476,540		
International equities	16,119,094	16,119,094		
Other equity mutual funds	2,667,521	2,667,521		
U.S. Savings bonds	80,003		80,003	
Real estate	<u>570,677</u>		<u>570,677</u>	
Total investments	48,579,298	47,928,618	650,680	
Beneficial interests in trusts	<u>8,720,151</u>		<u>276,219</u>	<u>8,443,932</u>
	<u>\$ 57,299,449</u>	<u>\$ 47,928,618</u>	<u>\$ 926,899</u>	<u>\$ 8,443,932</u>

	2015			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market accounts	\$ 342,298	\$ 342,298	\$	\$
Fixed income mutual funds				
Intermediate-term bond	7,052,182	7,052,182		
Other fixed income mutual funds	3,255,539	3,255,539		
Equity mutual funds				
Domestic equities	14,261,210	14,261,210		
International equities	16,941,377	16,941,377		
Other equity mutual funds	3,116,804	3,116,804		
U.S. Savings bonds	76,739		76,739	
Real estate	<u>386,945</u>		<u>386,945</u>	
Total investments	45,433,094	44,969,410	463,684	
Beneficial interests in trusts	<u>9,284,112</u>		<u>303,691</u>	<u>8,980,421</u>
	<u>\$ 54,717,206</u>	<u>\$ 44,969,410</u>	<u>\$ 767,375</u>	<u>\$ 8,980,421</u>

EMPORIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 15 – COMPONENT UNITS - continued

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

	<u>2016</u>	<u>2015</u>
Investments recorded at		
Fair value and included above	\$ 48,579,298	\$ 45,433,094
Assets not at fair value	1,366,735	1,335,868
Net asset value	<u>30,484,277</u>	<u>34,329,102</u>
Total investments and beneficial interests in trusts	<u>\$ 80,430,310</u>	<u>\$ 81,098,064</u>

Contributions Receivable

Contributions receivable at June 30, 2016 and 2015 consisted of the following unconditional promises to give discounted at a rate of 3.25%:

	<u>2016</u>	<u>2015</u>
Due within one year	\$ 2,270,092	\$ 1,379,149
Due in one to five years	4,424,331	3,377,428
Due in more than five years	<u>2,556,300</u>	<u>3,008,700</u>
	9,250,723	7,765,277
Less		
Allowance for uncollectible contributions	302,561	331,543
Unamortized discount	<u>1,151,543</u>	<u>1,103,255</u>
	<u>\$ 7,796,619</u>	<u>\$ 6,330,479</u>

EMPORIA STATE
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