

**KANSAS STATE UNIVERSITY FOUNDATION**

Manhattan, Kansas

**FINANCIAL STATEMENTS  
WITH  
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

Years Ended June 30, 2005 and 2004

VARNEY & ASSOCIATES, CPAs, LLC  
Manhattan, Kansas

**KANSAS STATE UNIVERSITY FOUNDATION**  
Manhattan, Kansas  
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October 4, 2005

To the Board of Trustees of  
Kansas State University Foundation  
Manhattan, Kansas

### Independent Auditors' Report

We have audited the accompanying consolidated statements of financial position of Kansas State University Foundation (a nonprofit organization) as of June 30, 2005 and 2004 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kansas State University Foundation as of June 30, 2005 and 2004, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants

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*Certified Public Accountants' Report*

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
 June 30,

	<b>2005</b>	<b>2004</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 25,720,691	\$ 40,005,259
Short-term investments and certificates of deposit	3,564,054	3,437,449
Equity Investments	137,804,969	115,552,052
Book value - \$113,068,514 at June 30, 2005		
Book value - \$99,110,169 at June 30, 2004		
Corporate and other fixed income	53,098,155	53,204,801
Book value - \$51,784,273 at June 30, 2005		
Book value - \$52,839,862 at June 30, 2004		
U.S. Government and government agency obligations	1,586,697	1,919,510
Book value - \$1,381,628 at June 30, 2005		
Book value - \$1,798,064 at June 30, 2004		
Real estate investments	16,235,583	11,237,931
Book value - \$15,340,486 at June 30, 2005		
Book value - \$11,052,324 at June 30, 2004		
Alternative strategies	68,978,183	43,017,957
Book value - \$64,552,799 at June 30, 2005		
Book value - \$42,625,873 at June 30, 2004		
Other securities and investments	390,851	4,725,619
Book value - \$357,998 at June 30, 2005		
Book value - \$4,552,383 at June 30, 2004		
Pledges receivable, net	6,917,920	6,699,569
Receivables from estates	2,954,366	1,339,850
Loans receivable	1,639,167	1,689,596
Real estate and other depreciable property	20,195,627	19,396,564
Accumulated depreciation	(3,553,794)	(3,318,283)
Net real estate and other depreciable property - Golf Course	1,913,451	17,049,835
Cash surrender value of life insurance policies	2,575,063	2,126,013
Other assets and accrued income	524,821	1,125,831
<b>TOTAL ASSETS</b>	<b>\$ 340,545,804</b>	<b>\$ 319,209,553</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable, deposits and other liabilities	\$ 1,022,856	\$ 897,601
Accrued liabilities and line of credit	1,411,683	3,090,261
Assets held for others	4,741,853	2,688,967
Current obligations, unitrust and annuity liabilities	2,350,527	2,457,978
<b>Total Current Liabilities</b>	<b>\$ 9,526,919</b>	<b>\$ 9,134,807</b>
<b>Other Liabilities</b>		
Unitrust and annuity liabilities, less current obligation	\$ 18,201,668	\$ 16,909,816
Note Payable - Nanoscale	1,895,754	1,972,277
Note Payable - Printing Services	727,337	769,257
Mortgage Payable - Golf Course	1,950,000	-
Bonds payable - Golf Course	-	7,725,000
Bonds payable - Educational and Agricultural Research Facility Rev Bonds	635,000	675,000
<b>Total Other Liabilities</b>	<b>\$ 23,409,759</b>	<b>\$ 28,051,350</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 32,936,678</b>	<b>\$ 37,186,157</b>
<b>Net Assets</b>		
Unrestricted net assets (designated)	\$ 27,485,615	\$ 22,967,594
Temporarily restricted net assets	68,901,535	77,034,223
Permanently restricted net assets	211,221,976	182,021,579
<b>TOTAL NET ASSETS</b>	<b>\$ 307,609,126</b>	<b>\$ 282,023,396</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 340,545,804</b>	<b>\$ 319,209,553</b>

# Financial Statements

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
 For The Year Ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2005 Total</u>	<u>2004 Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>					
Contributions	\$ 1,426,114	\$ 30,094,553	\$ 10,863,544	\$ 42,384,211	\$ 42,831,044
Investment income	(1,355,257)	6,953,885	926,064	6,524,692	5,620,049
Net realized and unrealized gains on asset transactions	11,533,033	1,688,271	13,426,303	26,647,607	29,386,208
Other support					
Operational service charges, management fees and other	3,164,252	-	-	3,164,252	2,688,590
Receipts for grants, research, supplies, travel and other	-	-	-	-	-
University departmental activities and funding allotments, etc.	37,924	4,843,978	208,000	5,089,902	2,506,118
Actuarial gain/(loss) on unitrusts and annuities obligations	-	(3,085,403)	2,332,198	(753,205)	1,421,568
Net assets released from restrictions	(247,689)	(1,196,599)	1,444,288	-	-
Satisfaction of program restrictions	38,193,920	(38,193,920)	-	-	-
<b>Total Revenue, Gains and Other Support</b>	<u>\$ 52,752,297</u>	<u>\$ 1,104,765</u>	<u>\$ 29,200,397</u>	<u>\$ 83,057,459</u>	<u>\$ 84,453,577</u>
<b>EXPENSES AND SUPPORT</b>					
Direct University support					
Scholarships and other student awards	\$ 6,627,739	\$ -	\$ -	\$ 6,627,739	\$ 6,928,496
Academic	7,230,057	-	-	7,230,057	6,049,465
Administrative - Faculty and student support	19,198,714	-	-	19,198,714	18,133,312
Capital improvements	5,002,847	-	-	5,002,847	7,210,108
<b>Subtotal</b>	<u>\$ 38,059,357</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,059,357</u>	<u>\$ 38,321,381</u>
Investment - Portfolio management	2,031,814	-	-	2,031,814	1,798,961
Investment - Loan interest expense and write-off	506,935	-	-	506,935	899,277
KSUF Administration	3,134,027	-	-	3,134,027	2,573,686
KSUF Fundraising	4,502,143	-	-	4,502,143	3,819,922
<b>Total Expenses and Support</b>	<u>\$ 48,234,276</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,234,276</u>	<u>\$ 47,413,227</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 4,518,021</u>	<u>\$ 1,104,765</u>	<u>\$ 29,200,397</u>	<u>\$ 34,823,183</u>	<u>\$ 37,040,350</u>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>\$ 22,967,594</u>	<u>\$ 77,034,223</u>	<u>\$ 182,021,579</u>	<u>282,023,396</u>	<u>244,983,046</u>
<b>ADJUSTMENT TO NET ASSETS (KSUGCMRF Quasi Reorganization)</b>	<u>\$ -</u>	<u>\$ (9,237,453)</u>	<u>\$ -</u>	<u>(9,237,453)</u>	<u>-</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 27,485,615</u>	<u>\$ 68,901,535</u>	<u>\$ 211,221,976</u>	<u>\$ 307,609,126</u>	<u>\$ 282,023,396</u>

The accompanying notes are an integral part of these financial statements.

*Financial Statements*



**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
 For The Year Ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2004 Total</u>	<u>2003 Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>					
Contributions	\$ 453,508	\$ 33,618,895	\$ 8,758,641	\$ 42,831,044	\$ 38,079,023
Investment income	(397,315)	4,740,818	1,276,546	5,620,049	5,335,174
Net realized and unrealized gains on asset transactions	9,666,331	2,581,544	17,138,333	29,386,208	948,465
Other support					
Operational service charges, management fees and other	2,688,590	-	-	2,688,590	2,182,830
Receipts for grants, research, supplies, travel and other					
University departmental activities and funding allotments, etc.	101,238	2,404,430	450	2,506,118	2,406,367
Actuarial gain/(loss) on unitrusts and annuities obligations	543,567	(460,665)	1,338,666	1,421,568	4,871,526
Net assets released from restrictions	(304,638)	1,979,335	(1,674,697)	-	-
Satisfaction of program restrictions	38,973,033	(38,973,033)	-	-	-
<b>Total Revenue, Gains and Other Support</b>	<u>\$ 51,724,314</u>	<u>\$ 5,891,324</u>	<u>\$ 26,837,939</u>	<u>\$ 84,453,577</u>	<u>\$ 53,823,385</u>
<b>EXPENSES AND SUPPORT</b>					
Direct University support					
Scholarships and other student awards	\$ 6,928,496	\$ -	\$ -	\$ 6,928,496	\$ 7,735,102
Academic	6,049,465	-	-	6,049,465	4,596,259
Administrative - Faculty and student support	18,133,312	-	-	18,133,312	17,838,362
Capital improvements	7,210,108	-	-	7,210,108	4,468,330
<b>Subtotal</b>	<u>\$ 38,321,381</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,321,381</u>	<u>\$ 34,638,053</u>
Investment - Portfolio management	1,798,961	-	-	1,798,961	2,015,937
Investment - Loan interest expense and write-off	899,277	-	-	899,277	589,784
KSUF Administration	2,573,686	-	-	2,573,686	2,710,351
KSUF Fundraising	3,819,922	-	-	3,819,922	4,088,042
<b>Total Expenses and Support</b>	<u>\$ 47,413,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,413,227</u>	<u>\$ 44,042,167</u>
<b>CHANGE IN NET ASSETS</b>	\$ 4,311,087	\$ 5,891,324	\$ 26,837,939	\$ 37,040,350	\$ 9,781,218
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>18,656,507</u>	<u>71,142,899</u>	<u>155,183,640</u>	<u>244,983,046</u>	<u>235,201,828</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 22,967,594</u>	<u>\$ 77,034,223</u>	<u>\$ 182,021,579</u>	<u>\$ 282,023,396</u>	<u>\$ 244,983,046</u>

The accompanying notes are an integral part of these financial statements.

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
 For The Years Ended June 30,

	<b>2005</b>	<b>2004</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 34,823,183	\$ 37,040,350
Adjustments to reconcile change in net assets to net cash used by operating activities		
Contributions for endowment	\$ (9,042,645)	\$ (10,698,502)
Contributions for term endowment	(1,146,377)	(1,072,345)
Non-cash contributions	(11,312,337)	(14,521,772)
Non-cash expenditures	6,835,386	5,305,877
Net realized and unrealized loss on asset transactions	(26,648,424)	(29,386,208)
Depreciation	362,573	318,119
Depreciation Golf Course	-	408,063
Unitrust and annuity liability distributions	2,379,635	1,996,845
(Increase) decrease in Golf Course Assets	15,136,384	-
(Increase) decrease in pledges receivable	(218,351)	3,745,947
(Increase) decrease in receivables from estates	(1,614,516)	1,568,800
(Increase) decrease in loans	50,429	348,113
(Increase) decrease in cash surrender value of life insurance policies	(449,049)	(356,614)
(Increase) decrease in other assets and accrued income	601,011	(31,235)
Increase (decrease) in accounts payable	125,255	(38,610)
Increase (decrease) in accrued liabilities and line of credit	(1,678,578)	(431,723)
Increase (decrease) in assets held for others	2,052,886	62,362
Increase (decrease) in unitrust and annuity liabilities	1,184,401	3,654,806
<b>Total Adjustments</b>	<b>\$ (23,382,317)</b>	<b>\$ (39,128,077)</b>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>\$ 11,440,866</b>	<b>\$ (2,087,727)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	\$ 194,477,054	\$ 121,100,345
Proceeds from sale of real estate	888,218	3,008,958
Purchase of investments	(212,571,969)	(119,820,459)
Purchase of real estate	(973,011)	(2,303,667)
KSUGCMRF Quasi Reorganization	(9,237,453)	-
Purchase of fixed assets - Golf Course	-	(2,681)
Expenditures for depreciable property	(184,218)	(94,253)
<b>Net Cash Used in Investing Activities</b>	<b>\$ (27,601,379)</b>	<b>\$ 1,888,243</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions for endowment	\$ 9,042,645	\$ 10,698,502
Contributions for term endowment	1,146,377	1,072,345
Increase (decrease) in bonds, mortgage and notes payable	(5,933,443)	(353,019)
Life income payments, including unitrust and annuity payments	(2,379,635)	(1,996,845)
<b>Net Cash Provided by Financing Activities</b>	<b>\$ 1,875,944</b>	<b>\$ 9,420,983</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (14,284,569)</b>	<b>\$ 9,221,499</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>40,005,260</b>	<b>30,783,761</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 25,720,691</b>	<b>\$ 40,005,260</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Non-cash investing and financing activities		
Gifts in kind, securities and properties	\$ 11,312,337	\$ 14,521,772
Interest expense	\$ 368,474	\$ 899,277

Financial Statements



**KANSAS STATE UNIVERSITY FOUNDATION**  
Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2005 and 2004

**Notes To Financial Statements**

**Note 1: Significant Accounting Policies**

**Organization**

The purpose of the Foundation is to encourage, receive, and hold in trust any real or personal property given for the use of Kansas State University, its faculty and students; and to invest, disburse, manage and control all such gifts to provide those services to the University which are not or cannot be provided through state appropriations or student fees.

**Income Taxes**

The Foundation is a non-profit Section 501(c)(3) tax exempt organization. It is not subject to income taxes except on unrelated business income. No unrelated business income tax has been paid in the current year.

**Method of Accounting**

The financial statements are presented on the accrual basis of accounting.

**Subsidiary**

The Kansas State University Foundation financial statements include a supporting organization, the Kansas State University Golf Course Management and Research Foundation, formed in 1997. The financial statements have been consolidated in accordance with accounting principles generally accepted in the United States of America. All significant inter-organizational accounts and transactions are eliminated in the consolidated financial statements.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are reviewed periodically and any changes in such estimates may affect amounts reported in future periods.

**Asset Valuation**

Assets acquired by purchase are recorded at cost; assets acquired by gift are recorded at fair market value as of the date of gift.

**Investments**

Investments are reported at market value. Investments with the Common Fund and with other investment managers and in mutual funds are classified according to the types of securities held by the funds: equities, including common and preferred stocks; fixed income instruments, including corporate and other bonds; U.S. Government and government agency obligations; and other securities, including venture capital, real estate, emerging market and private equity funds.

Income on pooled investments is distributed to all participating funds in accordance with the policies of the Foundation's Executive Committee.

**Receivables**

Pledges receivable are reported at net realizable value. The balance is discounted using a six percent rate to recognize the present value of the future pledges receivable. An allowance for uncollectable pledges is estimated and netted against pledges receivable.

**KANSAS STATE UNIVERSITY FOUNDATION**  
Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2005 and 2004

**Note 1: Significant Accounting Policies (Continued)**

**Receivables (Continued)**

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

**Concentrations of Credit Risk**

Management recognizes and accepts the risk for any financial institution deposits that exceed FDIC insurance limits.

**Loans Receivable**

Loans, including student loans, real estate mortgages and other loans, are recorded at amounts advanced to borrowers less principal repayments received. Uncollectable loans are written-off using the direct write-off method.

**Fixed Assets**

Depreciation is provided on a straight line basis over the estimated useful lives of capitalized assets. Normal repairs and maintenance are expensed.

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

**Accrued Liabilities**

Accrued liabilities include allowances for compensated absences and other accruals.

**Contributions Establishing Charitable Trusts**

The Foundation accepts donor contributions to establish trust agreements in exchange for a named beneficiary to receive a fixed dollar annual return or a specific percentage of the fair value of the trust assets for the beneficiary's lifetime or a specific time period. A portion of the donation is considered to be a charitable contribution and the remaining portion represents a liability equal to the present value of future payments. The liability is revalued annually based on actuarially computed present values.

**Pension Plan**

The Foundation has a defined contribution pension plan for eligible employees.

**Restricted Assets**

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Upon expiration of the donors' restrictions, temporarily restricted net assets are classified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as restricted contributions and subsequently released for restrictions in the accompanying financial statements.

Permanently restricted net assets are restricted by donors to be maintained by the Foundation in perpetuity.

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2005 and 2004

**Note 1: Significant Accounting Policies (Continued)**

**Contributions of Services**

Contributions of services are recognized in the financial statements if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation.

**Cash and Cash Equivalents**

The Foundation considers all money market accounts with brokers and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

**Note 2: The Common Fund**

The Common Fund held bond, equity, venture capital, real estate and short term investments of the Foundation totaling an estimated \$130,010,909 and \$125,122,304 at June 30, 2005 and 2004, respectively, at market value, which is approximately 38% and 39% of total assets. The Foundation's investments with the Common Fund are carried in twenty-three different types of funds to provide diversification. The following schedule reflects the Foundation holdings in each of the Common Fund fund types:

Fund Description	Book Value	Market Value	Book Value	Market Value
	June 30, 2005	June 30, 2005	June 30, 2004	June 30, 2004
Emerging Markets	9,204,811	13,195,730	\$ 8,477,147	\$ 9,564,493
International Equity - LH	11,156,911	15,345,751	9,968,018	12,683,644
Multi-Strategy Bond	4,189,955	4,460,985	7,694,731	7,820,140
Absolute Return Fund	5,818,494	6,843,075	5,001,120	5,719,107
Capital Ventures VI	142,926	142,926	-	-
Short-Term Investments	14,104,541	14,104,541	32,120,859	32,120,859
Endow. Realty Investors II	1,888,706	1,888,706	2,302,386	2,302,386
Realty Investors	6,835,755	6,835,755	4,992,421	4,992,421
Global Hedged Partners, LLC	4,598,762	4,598,762	2,706,889	2,706,889
Endow. Energy Partners III	432,062	432,062	504,856	504,856
Endow. Private Equity Partners II	902,810	902,810	900,977	900,978
Endow. Private Equity Partners IV	2,151,652	2,151,652	1,731,929	1,731,939
Endow. Private Equity Partners V	596,903	596,903	236,117	236,117
Endow. Private Equity Partners VI	62,871	62,870	68,034	68,034
Endow. Inter. Private Equity Partn. III	709,780	709,780	503,658	503,660
Endow. Venture Partners I	-	-	87,497	87,500
Endow. Venture Partners III	530,629	530,629	741,658	741,657
Endow. Venture Partners IV	492,925	492,925	501,149	501,145
Endow. Venture Partners V	887,740	887,740	706,313	706,314
Distressed Debt Partners, LP	309,584	309,584	1,086,151	1,086,150
Distressed Debt Partners, II	616,066	616,066	470,443	470,441
International Partners IV, LP	505,181	505,181	175,371	175,371
High Quality Bond Fund	30,386,379	30,589,562	22,849,020	22,514,284
Multi-Strategy Commodities Fund	1,999,504	2,031,592	-	-
Equity Opportunity Fund	12,931,120	16,141,048	12,753,882	14,886,733
CIF All Cap Equity Fund	5,031,671	5,634,274	2,100,000	2,097,186
<b>Total</b>	<b>\$ 116,487,738</b>	<b>\$ 130,010,909</b>	<b>\$ 118,680,626</b>	<b>\$ 125,122,304</b>

**KANSAS STATE UNIVERSITY FOUNDATION**  
 Manhattan, Kansas  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2005 and 2004

**Note 2: The Common Fund (Continued)**

The Common Fund is an independent professional investment manager and advisor for the Foundation. It is a nonprofit corporation organized to provide investment management services exclusively for educational institutions. The Common Fund is governed by a Board of Trustees elected by its member colleges, universities, and independent schools.

The Foundation had outstanding commitments on June 30, 2005 and 2004 with the following funds:

	Original Commitment	Commitments Remaining as of	
		June 30, 2005	June 30, 2004
Common Fund Endowment Energy Partners III	\$ 1,000,000	\$ 92,000	\$ 102,000
Common Fund Endowment Private Equity Partners II	2,500,000	136,531	192,781
Common Fund Private Equity Partners IV	2,000,000	-	250
Additional commitment - Common Private Equity Ptnrs IV	1,500,000	1,371,500	1,500,000
Common Fund International Private Equity Partners III	1,000,000	252,086	507,086
Common Fund Endowment Venture Partners III	1,930,000	19,300	19,300
Common Fund Endowment Venture Partners IV	1,500,000	116,250	217,500
Common Fund Venture Partners V	1,760,000	547,012	863,200
Common Fund Int'l Partners IV, LP	2,000,000	1,430,000	1,780,000
Common Fund Capital Private Equity Partners V	3,000,000	2,377,500	2,782,500
Common Fund Capital Venture Partners VI	700,000	542,470	640,750
Common Fund Distressed Debt II	1,000,000	493,190	600,000

**Note 3: Asset Holdings and Rate of Return**

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

**University Real Estate Fund (Formerly Perimeter Policy)** - Certain real estate holdings adjacent to the University Campus were purchased and are held for current and potential university use.

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

**Ramada Inn and University Amoco** - The hotel and service station located adjacent to the University were built on land acquired by the Foundation to meet the needs of public lodging and service facilities close to the University campus.

**Faculty and Accommodation Loans** - The Foundation provides faculty loans at favorable interest rates to University faculty and staff to enable them to conduct business travel pending reimbursement from the University. Non-interest bearing accommodation loans are made to faculty and staff when salaries are not received on time from the University.

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**Note 4: Pooled Investment Policies**

The Foundation's Executive Committee determines the percentage distribution of total return to the participating funds in the Pooled Endowment Fund. For the fiscal years ended June 30, 2005 and 2004, the total return of the Pooled Endowment Fund from all assets was +13.74% and +18%, respectively. The distributions approved by the Foundation's Executive Committee are:

1. 3.75% of the market value will be distributed to the income account of the participating funds for spending and .25% of the market value will be distributed to the campus units as discretionary funds.
2. 1.6% of the market value for fiscal year 2005 (1.65% for 2004) will be distributed to the Foundation for allocation as determined each year by the Executive Committee.
3. The balance of the total return is reinvested in the principal account of the participating funds.

During fiscal year 2003, the distribution policy was modified in order to comply with state statutes (UMIFA) regarding endowments with a market value less than historic book value. As a result, effective January 1, 2003, for those participating accounts with a market value less than their historic book value, current income (interest, dividends, rents) is distributed based upon the following prioritization:

1. The Foundation allocation is distributed to the extent there is sufficient current income to do so.
2. To the extent current income remains available, a distribution is made for funding the purpose of the participating account, up to that amount that would have been distributed had the account's market value been greater than the historic book value.
3. To the extent current income remains available, a distribution to the campus unit's discretionary fund will be made, up to that amount that would have been distributed had the account's market value been greater than the historic book value.
4. Remaining current income, if any, and the remainder of the approved distribution will be returned to the account as an addition to principal.

At June 30, 2005, the KSU Foundation had 155 endowment funds with a market value less than historic book value. The market for these funds totaled \$10,597,480 compared to the total historic book value of \$11,197,472.

**Note 5: Pledges Receivable**

Pledges receivable of \$7,775,011 for 2005 and \$7,748,269 for 2004 have been discounted to their present values on the financial statements reported as \$6,917,920 for 2005 and \$6,699,569 for 2004. The Foundation estimates payments of the pledges will be received as follows:

	<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>
Gross pledges receivable	\$ 8,078,052	\$ 9,341,918
Allowance for uncollectible pledges	(303,041)	(1,593,649)
<b>Subtotal</b>	<b>\$ 7,775,011</b>	<b>\$ 7,748,269</b>
Present value discount	(857,091)	(1,048,700)
<b>Net Pledges Receivable</b>	<b>\$ 6,917,920</b>	<b>\$ 6,699,569</b>

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**Note 5: Pledges Receivable (Continued)**

	June 30,	
	2005	2004
FYE June 30, 2005	\$ -	\$ 1,837,357
FYE June 30, 2006	2,440,637	1,674,276
FYE June 30, 2007	1,340,719	1,001,259
FYE June 30, 2008	911,521	512,007
Thereafter	2,225,043	1,674,670
<b>Total</b>	<b>\$ 6,917,920</b>	<b>\$ 6,699,569</b>

**Note 6: Conditional Promises**

Conditional promises are not reported on the financial statements due to the unknown occurrence of a specified future and uncertain event. Donors have notified the Foundation of conditional promises approximating \$108,246,338 for 2005 and \$91,805,762 for 2004 in the form of bequests. Donors have also informed the Foundation of conditional promises in the form of life insurance policies approximating \$31,802,060 for 2005 and \$31,512,659 for 2004. The cash surrender value of these policies, which is a known occurrence and certain event, is reported on the financial statements totaling \$2,575,063 for 2005 and \$2,126,013 for 2004.

**Note 7: Loans Receivable**

Loans are composed of student, real estate mortgages/contract sales, and other loans for fiscal years ended June 30, 2005 and 2004.

	June 30,	
	2005	2004
Faculty/departmental and other loans *	\$ 935,017	\$ 839,636
Real estate mortgages/contract sales loans **	466,670	592,118
Student loans	237,480	257,842
<b>Total</b>	<b>\$ 1,639,167</b>	<b>\$ 1,689,596</b>

\* Faculty loans are at 14% if not paid timely, departmental loans are between 8% and 8.75%

\*\* Interest rates ranged from 7.25% to 10% and maturities ranged from 2005 to 2016

**Note 8: Unrestricted Net Assets (Designated)**

Unrestricted net assets of the Foundation have been designated. The Executive Committee of the Foundation designated the income from the investments of the Underwriting funds to be used for operation of the Foundation. The Trust Management Committee designated a reserve account for the Charitable Gift Annuity Pool to assure future obligations of annuity payments. The remaining balance has been designated by the Executive Committee for other purposes.

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**Note 8: Unrestricted Net Assets (Designated) (Continued)**

The unrestricted net assets are composed of the following:

	<u>2005</u>	<u>2004</u>
Underwriting funds and Charitable Gift Annuity Pool Reserve	\$ 18,074,659	\$ 13,659,563
Net investment in property and equipment, Foundation Center	1,653,644	1,745,627
Real estate utilized by College of Agriculture	129,862	129,862
KSU Underwriting Fund and other funds held for Kansas State	2,481,331	2,648,137
University Real Estate Fund (formerly Perimeter Policy)*	5,146,119	4,784,405
<b>Total</b>	<u>\$ 27,485,615</u>	<u>\$ 22,967,594</u>

\*Previously, the University Real Estate Fund was an investment of the Pooled Endowment Fund.

**Note 9: Pension Plan**

The Kansas State University Foundation Board of Trustees has established the Kansas State University Foundation Defined Contribution Retirement Plan. The Plan provides for employer and employee contributions at 8.5% and 5.5%, respectively. Employees are fully vested when plan contributions are made. Employer contributions paid by the Foundation were \$269,075 and \$246,421 for the years ended June 30, 2005 and 2004.

Employees are eligible to participate on a voluntary basis on the Plan entry date following the completion of a 12 month period of service. An eligible employee is required to begin participation in the Plan no later than upon the completion of 2 years of service at the Foundation and the attainment of age 30.

**Note 10: Real Estate and Other Depreciable Assets**

Major asset categories at June 30 consist of:

	<u>2005</u>		<u>2004</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Residential and commercial	\$ 14,091,265	\$ 3,553,794	\$ 13,399,852	\$ 3,318,283
Farms	6,104,362	-	5,996,712	-
<b>Total</b>	<u>\$ 20,195,627</u>	<u>\$ 3,553,794</u>	<u>\$ 19,396,564</u>	<u>\$ 3,318,283</u>

Straight-line depreciation is used for all categories over estimated useful lives of three to ten years for vehicles, computers and furnishings; fifteen years for certain building improvements and telephone equipment, and thirty to forty years for buildings.

Depreciation expense for fiscal years ended June 30, 2005 and 2004 was \$362,573 and \$318,119, respectively.

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**Note 11: Contributions**

The Foundation historically reported contributions on the cash basis. The adoption of the accrual basis for financial statement purposes requires recognized receivables and liabilities to be reported during the year of occurrence. The following summarizes the effect of recording these accruals for the year ended June 30:

	<u>2005</u>	<u>2004</u>
<b>Contributions - Cash Basis</b>	\$ 41,795,932	\$ 54,202,163
Net changes		
Contributions, line of credit paid by six guarantors	1,881,927	-
Net increase (decrease) in pledges receivable	218,351	(3,745,947)
Net increase (decrease) in receivable from estates	1,614,516	(1,568,800)
Net (increase) decrease in unitrust and annuity liabilities and future obligations	(3,126,515)	(6,056,372)
<b>Contributions - Accrual Basis</b>	<u>\$ 42,384,211</u>	<u>\$ 42,831,044</u>

**Note 12: Consolidation of Subsidiary**

The Kansas State University Golf Course Management and Research Foundation (KSUGCMRF) is a supporting organization of the Foundation formed to build, own and operate a golf course. This not-for-profit corporation was formed in 1997 based on a request from the University to provide a golf course to further the University's mission. The corporation was granted tax-exempt status by the Internal Revenue Service with an accounting period ending December 31. A summary of financial information for KSUGCMRF at June 30 is as follows:

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Cash	\$ 550,042	\$ 328,360
Real estate and other depreciable assets	1,913,451	17,049,835
Pledges receivable	1,877,321	1,780,467
Other assets	85,076	421,006
	<u>\$ 4,425,890</u>	<u>\$ 19,579,668</u>
<b>Liabilities</b>		
Note payable (including line of credit in 2004) and other liabilities	840,570	2,600,606
Mortgage payable	1,950,000	-
Bonds payable	-	7,725,000
	<u>\$ 1,635,320</u>	<u>\$ 9,254,062</u>
<b>Sources</b>		
Contributions	\$ 655,494	\$ 622,389
Contributions, line of credit paid by six guarantors	1,881,927	-
Contributions, increase (decrease) in pledges	96,854	(207,125)
Operations net income (loss)	(512,155)	(593,793)
Other income	195,926	173,360
<b>Uses</b>	<u>(699,335)</u>	<u>(923,746)</u>
<b>Change in Net Assets</b>	\$ 1,618,711	\$ (928,915)
<b>Net Assets - Beginning of Year</b>	<u>9,254,062</u>	<u>10,182,977</u>
<b>Adjustments to Net Assets (KSUGCMRF Quasi Reorganization)</b>		
Revaluation of Real Estate and other depreciable assets	(14,933,518)	-
Refinance and reduction of Bond Payable plus accrued interest	5,696,065	-
<b>Net Adjustments to Net Assets(KSUGCMRF Quasi Reorganizatio</b>	<u>(9,237,453)</u>	<u>-</u>
<b>Net Assets - End of Year</b>	<u>\$ 1,635,320</u>	<u>\$ 9,254,062</u>



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**Note 12: Consolidation of Subsidiary (Continued)**

Additional gift-in-kind verbal pledges totaling \$20,175 as of June 30, 2005 are not shown on the financial statements.

The KSUGCMRF defaulted on its debt in June 2005 ultimately resulting in a quasi reorganization. The KSUGCMRF was unable to make payments on the \$7.7 million Educational Facilities Revenue Bonds administered by US Bank and its \$1.8 million line of credit with Columbian Bank & Trust Company. US Bank received the golf course and eventually settled with the KSUGCMRF accepting a \$2 million payment. Columbian Bank released the KSUGCMRF of the \$1.8 million line of credit that was guaranteed by six guarantors.

The KSUGCMRF obtained a \$1,950,000 mortgage payable from Kansas State Bank to settle the debt with US Bank. The mortgage payable is secured with the pledges of the KSUGCMRF. The interest rate is 5.85% payable semi-annually with scheduled principal payments beginning December 2005 through the June 2011.

Maturities as of June 30, 2005 were as follows:

	<b>Mortgage Payable to KS Bank</b>
FYE June 30, 2006	\$ 277,903
FYE June 30, 2007	297,007
FYE June 30, 2008	314,637
FYE June 30, 2009	333,312
FYE June 30, 2010	353,096
Thereafter	374,045
<b>Total</b>	<b>\$ 1,950,000</b>

Interest expense paid for fiscal years ended June 30, 2005 and 2004 for the Educational Facilities Revenue Bonds and the line of credit was \$254,226 and \$493,729, respectively.

A quasi reorganization has been approved by the KSUGCMRF Board. The quasi reorganization effectively restates the assets and liabilities of the KSUGCMRF to a more realistic value.

**Note 13: Note Payable - Nanoscale**

Kansas State University Foundation constructed a research/office facility in the K-State Research Park in Fiscal Year 2002. The cost basis of the building is \$2,041,849. The project was financed with a note payable with an interest rate of 3.75% and due in July 2005. As of June 30, 2005, the note payable was \$1,894,702. The loan was refinanced July 2005 with a note payable with an interest rate of 5.250% and due July 2008. The building is leased on a long-term basis to Nanoscale Materials, Inc., a spin-off research company associated with Kansas State University.

Interest for fiscal year ended June 30, 2005 and 2004 was \$73,668 and \$76,723, respectively.

Maturities as of June 30, 2005 were as follows:

	<b>6/30/2005 Note Payable Nanoscale</b>	<b>Refinanced Note Payable Nanoscale</b>
FYE June 30, 2006	\$ 1,894,702	\$ 68,834
FYE June 30, 2007	-	72,788
FYE June 30, 2008	-	83,190
FYE June 30, 2009	-	1,669,890
Thereafter	-	-
<b>Total</b>	<b>\$ 1,894,702</b>	<b>\$ 1,894,702</b>

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**Note 14: Note Payable - Printing Services**

Kansas State University Foundation purchased a warehouse/office building in the Manhattan Corporate Technology Park in Fiscal Year 2003. The cost basis of the building is \$865,000. The building was purchased through a bargain sale; the purchase was financed with a note payable with an interest rate of 4.50% and due in January 2008. As of June 30, 2005, the note payable was \$727,337. The building is leased to the Kansas State University until January of 2008.

Interest for fiscal year ended June 30, 2005 and 2004 was \$33,814 and \$36,183, respectively.

Maturities as of June 30, 2005 were as follows:

	<b>Note Payable Printing Services</b>
FYE June 30, 2006	\$ 43,846
FYE June 30, 2007	45,860
FYE June 30, 2008	637,631
Thereafter	-
<b>Total</b>	<b>\$ 727,337</b>

**Note 15: Bonds Payable - Educational and Agricultural Research Facility Revenue Bonds**

Kansas State University Foundation acquired Educational and Agricultural Research Facility Revenue Bonds totaling \$820,000 for a College of Agriculture construction project in Finney County. Bonds payable for this project as of June 30, 2005 is \$635,000. Interest rates range from 5% to 6.25% with scheduled semi-annual payments beginning in December 2000 through the year 2015. The bonds are issued by Finney County, Kansas.

Interest expense for fiscal years ended June 30, 2005 and 2004 was \$40,580 and \$63,752, respectively.

Maturities as of June 30, 2005 were as follows:

	<b>Note Payable Southwest Ag</b>
FYE June 30, 2006	\$ 45,000
FYE June 30, 2007	45,000
FYE June 30, 2008	45,000
FYE June 30, 2009	50,000
FYE June 30, 2010	55,000
Thereafter	395,000
<b>Total</b>	<b>\$ 635,000</b>